



Office of the City Auditor

Enhanced Municipal Services District Report No. 0525

August 29, 2005

Quantifiable performance measures to demonstrate program effectiveness do not exist. We did find that funds raised from the 2004 enhanced municipal services district assessment were spent on activities that fell, using a broad interpretation, within the work program approved in 2002. This report, however, raises a question about the budget process and actions taken after the approval of the citywide estimate of expenditures.

CITY COUNCIL

Mayor
Mary Manross

Council
Betty Drake
Wayne Ecton
W.J. "Jim" Lane
Robert Littlefield
Ron McCullagh
Kevin Osterman



**Office of the
City Auditor**

7440 East First Avenue
Scottsdale, AZ 85251

PHONE 480-312-7756
FAX 480-312-2634
WEB www.scottsdaleaz.gov

August 29, 2005

To the Most Honorable Mary Manross, Mayor
and Members of the Scottsdale City Council

Transmitted herewith is Audit Report No. 0525 on the enhanced municipal services district (EMSD). Staff was very cooperative and we would like to extend our thanks to the Downtown Group, Financial Services, the Office of the City Clerk, and the Office of the City Attorney. We would also like to acknowledge the assistance received from the Office of the City Attorney in developing the criteria used for certain elements of testing.

While completing this audit, an unrelated matter came to our attention. This issue deals with dissemination of materials for Commission meetings and retention of records. While Council appointed Commissions fall under the statutory provisions requiring posting of agendas, we found no City Code provisions or other guidance addressing the development of agendas, publication of meeting materials, or retention of official records of the public body. City Code states specifically that the City Clerk is responsible for keeping a true and correct copy of all business transacted by Council but there is no corresponding provision setting out the work area responsible for maintaining this information for Council appointed groups. As a result, the process is subject to staff interpretation of requirements and past instructions that may have been given but not documented. This practice creates inconsistency in preparation of agendas, dissemination of materials prior to meetings, and access to documentation. Improvement would support the Council's goal of open and responsive government.

If you need additional information or have any questions, please contact me at 480-312-7756.

Respectfully submitted,

Cheryl Barcala, CPA, CIA, CFE, CGFM, CISA, CISSP
City Auditor

Table of Contents

| | |
|---|----|
| EXECUTIVE SUMMARY | 1 |
| ACTION PLAN..... | 6 |
| BACKGROUND | 12 |
| History of the Downtown EMSD | 13 |
| Current History | 18 |
| Marketing Consultant..... | 18 |
| Marketing Plan | 20 |
| Distribution of Project Budget | 20 |
| Expenditures Year-to-Date | 20 |
| Revenue Year-to-Date..... | 25 |
| OBJECTIVE 1: Verify that the assessment methodology follows the parameters approved by Council when the work was ordered | 26 |
| OBJECTIVE 2: Verify that funds raised as a result of the assessment are used in a manner that provides assurance that the goals of the program will be achieved | 27 |
| OBJECTIVE 3: Verify that statutory requirements have been followed | 31 |
| OBJECTIVE 4: Verify that controls are in place to ensure performance under any contracts entered into as part of the program of work or necessary for the ongoing assessment..... | 32 |
| OBJECTIVE 5: Determine if there are any other issues related to the scope of this audit that need to be addressed..... | 40 |
| OBJECTIVE, SCOPE, AND METHODOLOGY | 52 |
| Findings Discussed With Management but not Included in This Report.. | 54 |
| Staff Assigned and Project Schedule | 54 |
| APPENDIX A – MANAGEMENT RESPONSE..... | 55 |
| EXHIBIT A –2004 AMBASSADOR'S MAP OF DOWNTOWN DISTRICTS | 57 |
| EXHIBIT B –MAP OF SPECIAL DISTRICT'S DOWNTOWN PLAN | 58 |
| EXHIBIT C – PLANS AND SPECIFICATIONS | 59 |
| EXHIBIT D – ASSESSMENT DISTRICT MAP | 61 |
| EXHIBIT E – COUNCIL ACTION REPORT | 62 |
| EXHIBIT F – BUDGET AND MARKETING PLANS | 69 |

EXECUTIVE SUMMARY

This report discusses issues with past practice as they relate to promotional activities provided within the boundary known as Enhanced Municipal Services District #2 (EMSD). It is important to note that staff took immediate action to resolve issues that were within their control while the audit was underway. Documentation, not previously required, was obtained from the Consultant and procedures were implemented to ensure that project time was submitted as part of the request for payment. Language used to provide notice of proposed assessment was changed to incorporate the annual increase with an option to not implement it. Finally, Financial Services staff changed the presentation of the program from the Trust Fund to the Special Revenue Fund to more appropriately reflect the nature of the revenue raised from the assessment.

In the three years subsequent to authorization, almost \$1.57 million in assessment revenue had been collected for the Promotional Program (Program). General fund revenues also supported it with a contribution of \$100,000 per year during fiscal years (FY) 02/03 and 03/04 to cover the cost of the management contract with the Downtown Scottsdale Partnership. In addition, the City funded, during each of the last three years, the indirect costs necessary to manage contractual arrangements, develop proposals for service delivery, evaluate responses, craft service agreements, and provide the legal expertise necessary to ensure that statutory requirements are met.

Our review of financial documentation indicated that funds raised from the 2004 assessment were spent on activities that fell, using a broad interpretation, within the general work program set out in 2002. Marketing Plans were developed, a new creative campaign initiated, maps and brochures printed, ads placed, and efforts such as the Goodwill Ambassador Program supported. Private entities received financial assistance with events such as ArtFest™, Made in Arizona, and the Ultimate New Year's Eve Block Party Daytime Event. The Scottsdale Gallery Association received support for promotional efforts associated with ArtWalks. Merchant associations used monetary grants to cover the cost to design, purchase, and install streetlight banners, procure ad placements, bring NASCAR vehicles to Downtown as part of the Spring Event, and provide free entertainment such as horse-drawn trolley rides and the Singing Cowboy. Program monies funded website development and updates.

Ultimately, we concluded that program results cannot be demonstrated. While staff may have monitored sales tax revenue and media impressions in an effort to gauge effectiveness of the Program, measures and indicators to communicate the aspects of program performance to interested stakeholders do not exist. There is no trend data to indicate that brand recognition

improved as a result of media impressions or other promotional activities; a strategy to assess the impact of the shift to increased specialty district focus in 2004 was not developed and annual customer surveys, set out as a specific activity to be provided under the general work program approved in 2002, did not occur.

For special events and entertainment opportunities funded with assessment monies, strategies for measuring impact were not developed. Surveys were not conducted with either customers or business owners to gauge support for the activity, tracking attendance was not a requirement of receiving grant monies, and ridership/participation numbers were not captured and reported to the EMSD Commission (Commission).

This report raises a question about the budget process and actions after the approval of the citywide estimate of expenditures. During this audit, we were unable to determine what should be reported as the FY 04/05 budget for the Program because two different budget amounts have been reported. On June 7, 2004, Council approved the citywide estimate of expenditures (i.e., the adopted budget) that included an estimate of \$670,000 in revenues for program delivery and a corresponding expenditure in the same amount. Two weeks later on June 22, 2004, Council considered a staff request to set the EMSD assessment at \$517,203 and adopt a budget equal to the assessment. The question we were unable to resolve is whether or not the action taken on the 22nd was equivalent to Council direction to reduce the adopted budget. This issue is fundamental to the question of public accountability because, ultimately, the FY 04/05 Program cost was close to \$600,000.¹ Monies collected as assessments are public funds that require the appropriate level of fiduciary oversight given to any other revenue collected by the City. As such, the Council and interested stakeholders should expect full disclosure of the use of these funds and any contributions. We do not believe this occurred (see page 40).

For future consideration, this report includes a recommendation to improve contractual terms and oversight when a third party vendor is used as the service provider (page 32). For the last three years, consultants under contract to the City handled the majority of promotional activities. The FY 04/05 contract for services was based on a monthly retainer and project-based fee structure but it did not:

- Require a guaranteed minimum number of hours per month in return for the retainer.
- Address rate of pay for services provided outside those covered by the retainer.

¹ Based on the detail trial balance as of August 1, 2005, for FY 04/05.

- Set out whether or not the Consultant was allowed to charge a mark up on media placements or production work and, if allowed, clearly outline what services were provided in return for the charge.
- Specify team members to be assigned to the project or the billing structure to be followed when sub-contractors were used.

Objective 2 (page 27) discusses program delivery and steps that can be taken to help provide assurance of achieving goals. For the Program, goals and general actions were developed prior to the decision to move forward and undertake the work. After Council approval of the request for enhanced services, no individual or work area within City operations was charged with the responsibility of ensuring that annual objectives were set, that performance measures were developed and tracked, or that activities were linked to objectives.

Creating a successful Promotional Program that achieves the goals initially set out when the Program was authorized will necessitate changes in service delivery so that the appropriate expertise is obtained (i.e., identify the skill set needed to carry out the activity and hire the right skills). For example, evaluating market conditions and reaching consensus on a Downtown vision as part of the effort needed to develop a strategic long range plan requires a different expertise than what is needed to develop a successful, creative marketing campaign. Similarly, implementing a successful volunteer program such as the Goodwill Ambassador Program requires a different set of skills than what is needed to manage special events and entertainment opportunities.

Efficiencies in service delivery may be available by using City resources (i.e., the City's Graphics Shop), partnering with other entities such as the Convention and Visitors Bureau (CVB), or looking at citywide promotional needs and sponsorship opportunities in a holistic manner. We found instances in which funds were used to purchase advertising opportunities at events receiving support from the City or the CVB without explanation as to why it was necessary to incur this additional cost. For example, in 2005, the Program purchased a Community Sponsorship for the P.F. Chang's Rock 'n' Roll Marathon (almost \$12,000 after paying the Consultant mark up) and a second tier sponsorship (a little over \$8,800 after the mark up) from the Charros for advertising at Spring Training. Both of these events receive support from the City and/or the CVB, a situation that should raise the question as to why advertising opportunities for Downtown had to be purchased as separate transactions.

Other actions beyond staff control occurred during the completion of this assignment and provide an opportunity to re-evaluate program delivery. The

Consultant requested to be released from contractual obligations at the end of the fiscal year. Then, Council elected not to set an assessment for FY 05/06 but stopped short of taking action to eliminate the Program. As a result, any marketing or promotional efforts carried out in FY 05/06 will be funded primarily with general fund revenues and carried out by City staff. This gives the City the ability to conduct a needs assessment for the entire Downtown area and focus the Program on specific needs.

In addition to the findings discussed in this report, there are certain policy decisions that need to be weighed by the Council.

1. With the decision not to set an assessment for this coming fiscal year, the Commission, as currently structured, has no continuing role. There is, however, no sunset clause in City Code that automatically terminates a Commission when its role has been completed. Moreover, according to Scottsdale Revised Code (SRC), §2-241(c), terms of existing members will continue until a successor is appointed. As such, the Commission, with its current structure, effectively continues until a decision is made to repeal the ordinance or take other action to terminate the existing appointments and restructure the role of the Commission.

If a decision is made to continue a Commission involvement in Downtown, consideration should be given to setting out expectations for preparation of a five-year strategic plan for promotion and marketing of the entire Downtown area. This structure would be similar to the Tourism Development Commission role in reviewing and making recommendations regarding the ongoing five-year strategic tourism development marketing plan.

2. City Code does not address the creation of the Downtown Group, the functions/duties to be accomplished, or the reporting structure for the work group. Article 4, Section 1, of the City Charter states that the Council, by ordinance, is to provide for the organization, conduct, and operation of the offices and departments of the City. This has not happened.

Moreover, the FY 05/06 program budget for this Group sets out broad program goals, objectives, and performance measures specifically geared towards results that would have been achieved with activities provided under the Promotional Program. With the actions taken to modify the Program, consideration should be given to requiring the development of new goals, objectives, and performance measures.

3. The term "specialty district" has been widely used; the Map and Directory printed in 2004 using Program monies outlines five districts within Downtown (Exhibit A); the ordinance creating the Commission sets out a requirement for membership based on specialty districts; and, finally, area grant monies were distributed based on this distinction. We could not find, however, any authoritative guidance setting out the designated boundary

for these districts or the process under which the City would determine the official merchant association identified as the representative for the area.

More importantly, though, we found conflicts, on the number of districts and the boundaries in the Downtown area, within other City documentation. For example, the City offers an incentive program that is available to designated Specialty Retail Districts; the boundaries for these Districts differ from those incorporated into the Downtown Overlay and set out in the City's Zoning Code (Exhibit B). Finally, both of these representations differ from the boundaries used as part of the designations for the Promotional Program. This issue will become more important if a future decision is made to provide a pool of money for distribution to specialty districts for use in promoting special events or funding other advertising opportunities.

4. If the EMSD is not terminated and the City re-visits setting an assessment next year, several issues may need to be resolved.
 - a. The EMSD boundary was set prior to the current development plan for the Waterfront. As a result, the north edge bisects the development currently underway. Without reconsideration, it will be difficult to set an assessment for the various parcels that now exist particularly in light of the fact that a portion of a building may fall within the boundary and a portion outside; add into this mix the fact that the building may ultimately contain retail, office, and residential uses that require a different classification when calculating the assessment.
 - b. The current assessment methodology collects the most from categories dealing with hotel and retail uses. For hotels, the rate is based on number of room nights per year while other categories are based on square foot of usable space or square foot of vacant land. When the categories were developed, there was little residential use. Development in the area has shifted with several large parcels moving towards residential condominiums. As this land is developed, the amount of assessment will be lowered because current methodology incorporates a rate for residential property that is so minimal that it has no impact on the amount raised.

ACTION PLAN

| No. | Recommendations and Management Response |
|-----|---|
| | The Executive Director of the Downtown Group should direct staff to: |
| 1 | Initiate the development of a strategic long-range plan for marketing, promotional, and advertising efforts for the Downtown area if public resources continue to be used to fund a Promotional Program. |
| | <p>Management Response: Concur. The City Council has approved an interim budget and a marketing plan for FY 05-06. Management is in the process of implementing this approved plan. For FY 06-07 and beyond should the City Council approve funding for downtown marketing, a long-range plan should be developed.</p> <p>Responsible Party: John Little Completed By: June 30,2005</p> |
| 2 | Set responsibility for both the strategic long-range plan and the Promotional Program; require development of a performance measurement system that can be used to gauge impact of activities. |
| | <p>Management Response: Concur. The City Council has set responsibility for the FY 05-06 marketing plan with the Downtown Group. Management has incorporated a performance measurement system to gauge the effectiveness of this year's major program elements, marketing materials and advertisements. Future marketing programs, if any, may or may not be a function of municipal government.</p> <p>Responsible Party: John Little Completed By: June 30,2005</p> |
| 3 | Enhance the role of the Contract Administrator and reinforce the fiduciary responsibility associated with this role to ensure that contractual obligations are adhered to. |
| | <p>Management Response: Concur. The current year marketing program has already adopted recommendations from this audit report to insure that contractual obligations are adhered to. The Executive Director of the Downtown Group has assumed direct day-to-day responsibility for this function.</p> <p>Responsible Party: John Little Completed By: Done</p> |

| No. | Recommendations and Management Response |
|-----|---|
| 4 | <p>Take appropriate steps to ensure that any future contractual arrangements for services related to the Promotional Program incorporates:</p> <ul style="list-style-type: none">• Clearly defined deliverables and a payment schedule based on percentage completed when a fixed fee is to be paid for the service provided.• The names of specific individuals assigned to the project, as a contractual requirement, when professional expertise is a factor used to weigh a decision to award a contract.• A fee schedule outlining hourly rate, the appropriate handling of indirect costs such as delivery services, commissions on placement or production work, and other ancillary charges when services will be paid based on the level of work performed.• A requirement to adhere to the City's Procurement Code when the service provider will be procuring goods or services on behalf of the City and passing those costs along as a cost of providing the service. |
| | <p>Management Response: Concur. This Promotional Program contract, as all professional services contracts, was reviewed for form and content by Purchasing, Risk Management and the City Attorney's Office to insure the city's interests were protected. The audit recommendations noted above, should be reviewed by legal and procurement staff to determine how they might be incorporated into any future professional services contracts.</p> <p>Responsible Party: _____ Completed By: _____</p> |

| No. | Recommendations and Management Response |
|-----|--|
| 5 | <p>Obtain clarification on the difference between budget authority and Council authorization when the Council approves a contract for services that is lower than the amount included as the budget estimate.</p> <p>Management Response: Concur. The Financial Services General Manager has analyzed this recommendation and has issued the following opinion; "The annual adopted city budget sets a maximum legal spending authority as full disclosure of possible expenditures for city programs within expected resource limits. Multi-year financial resource planning considers many factors to ensure the fiscal integrity and sustainability of programs. One of the factors considered is <u>cashflow</u>, which is not always the same as adopted budget or actual expenditure amounts.</p> <p>The City Budget (Trust Fund Summary – see Budget, Volume 1, page 56) adopted 6/8/04 by the City Council presented the 'estimated' carryover cash balance of \$45,320 at 6/30/04 for the EMSD along with an estimate for maximum expenditure budget authority of \$670,000. Subsequently, Downtown staff brought forward an action on 6/22/04 to levy the taxes for the district for less than the maximum expenditure - taking into account estimated cashflow needed to carryout the Program's scope of work. Conservative cashflow considerations include: anticipated actual program contractual expenditures, available cash carryover, current assessment, and estimates of prior year delinquency collections. EMSD actual expenditures for FY04/05 remain within the 6/8/04 adopted city budget and the underlying aggregate cashflow."</p> <p>The City Attorney's office confirms that the spending authority for the downtown marketing program is set through the city's normal budgeting process. One source of funding for that program is the enhanced municipal services district. When the City Council approves its annual enhanced municipal services district assessment resolution, it is not changing the city budget. Instead, the City Council is exercising its power to make enhanced municipal services district assessments assess for that year and deciding how much money to raise through tax assessments. That process does not amend the city budget, which continues in effect as previously approved by the City Council.</p> <p>Responsible Party: Craig Clifford Completed By: Done</p> |
| 6 | <p>Prepare annual reports setting out the source of revenue for the Promotional Program and the use of the funds. Present this information to Council and interested parties for consideration when seeking approval for funds to continue the Program.</p> <p>Management Response: Concur. Including sources of revenues and use of funds, as has been done in previous Council Action Reports, should be incorporated into any future process.</p> <p>Responsible Party: Not Applicable Completed By:</p> |

| No. | Recommendations and Management Response |
|-----|---|
| 7 | <p>Prepare a final accounting when the Promotional Program is complete. Present the information to Council and interested parties at a public meeting.</p> <p>Management Response: Concur. A final accounting and reconciliation of collected assessments and expenditures will be prepared and forwarded to the City Council in compliance with state statutes.</p> <p>Responsible Party: John Little Completed By: December 2006</p> |
| 8 | <p>Evaluate the ongoing need for the "working group" and take one of the following actions:</p> <ul style="list-style-type: none"> • Ask the EMSD Commission to take formal action to disband the group. • Take action to bring the structure into compliance with parameters set out in City Code. • Develop and submit to Council, for consideration, a change to City Code to remove the size restrictions for Committee appointments. <p>Management Response: Concur. The City Council has taken action to not fund EMSD marketing efforts. With no district funds there is no Commission-directed marketing plan. The volunteer help the Commission received from the working group is consequently no longer required. The working group had open volunteer participation apart from any involvement of the Commission. A Commission action to "accept", not appoint, all applicants was approved unanimously by the Commission on February 18, 2004. Any interested person could attend or not, depending on their individual interest. There were never any membership requirements, attendance rules or role calls. Individual participation did not require consent of the Commission. The group has "self-disbanded."</p> <p>Responsible Party: John Little Completed By:</p> |
| 9 | <p>Take appropriate steps to ensure that agendas for future meetings of any committees of the EMSD Commission are posted at least 24 hours in advance of the meeting.</p> <p>Management Response: Concur. While we maintain that the now disbanded working group was not a sub-committee and thus was not subject to the posting requirements applicable to sub committees and other public bodies, the Downtown Group and City Attorney's Office concur with the Auditor that if, in the future, the City Council were to fund downtown marketing and should the EMSD Commission reactivate and appoint a subcommittee of five members as provided for in the ordinance, that such meetings of the Commission subcommittee would be posted at least 24 hours in advance of its meetings.</p> <p>Responsible Party: John Little Completed By:</p> |

| No. | Recommendations and Management Response |
|-----|---|
| | If Council decides at a future date to assess property within the EMSD boundary for the cost of the Promotional Program, the Executive Director of the Downtown Group should: |
| 1 | Require the Engineer to document the parameters used when determining the assessment categories for property within the District boundary and annually review those parameters for appropriateness and any needed changes with the Contract Administrator. |
| | Management Response: Concur. While the Auditors report observes "The methodology used for the assessments for years 2002-2003, and 2004 as well as the proposed assessment for 2005 has followed, in material aspects, what was approved," none-the-less annually conducting an annual review of the assessment categories is a recommendation we can support. |
| 2 | Develop a quality assurance process sufficient to ensure that the annual updates prepared by the Engineer are checked against the records at the Assessor's Office to identify any errors that prevent an assessment from being correctly presented on a tax bill. |
| | Management Response: Concur, however, additional funds would be needed to provide quality assurance testing, should the Council decide to re-instate the EMSD assessment, they could also consider the question of the cost/benefit for quality assurance testing. The city works from Maricopa County's taxpayer database records from year to year. The EMSD engineering study annually updates those records. Each year all district property owners are provided information from the city that describes the process for protesting inaccurate assessments. Last year no formal protests were filed with the City Clerk. Currently the burden is on the taxpayer to bring to light inaccuracies in assessments. |
| 3 | Require the Engineer to prepare updated diagrams when changes within the boundary of the EMSD require deletions or additions to the assessment numbers assigned to the lots. |
| | Management Response: Concur, in the event the City Council chooses to reinstate the Enhanced Municipal Services District assessment. |
| 4 | Require the diagram and the accompanying spreadsheet listing lot and building square foot, classification assignment, and assessment value to be filed with the City Clerk when notices are mailed to property owners. |
| | Management Response: Concur, in the event the City Council chooses to reinstate the Enhanced Municipal Services District assessment. |
| 5 | Require any carryover of assessment monies to be presented as money available for programming when presenting annual statements and estimates of expenses. |
| | Management Response: Concur, in the event the City Council chooses to reinstate the Enhanced Municipal Services District assessment. |

| No. | Recommendations and Management Response |
|-----|---|
| | If Council decides at a future date to provide funding for an area grant component of the Promotional Program, the Executive Director of the Downtown Group should: |
| 1 | Require development of clearly defined criteria and an evaluation matrix for use in evaluating requests. |
| | Management Response: Concur. Evaluation criteria that were developed by city staff for Commission use last year should be updated and improved for use in evaluating area grant programs in any future Promotional Programs. |
| 2 | Consider a requirement for matching funds as a condition of receiving a grant. |
| | Management Response: Concur subject to policy issue to be decided by the City Council. While this was a concept brought forward in 2004 by the Chairman of the EMSD Commission, it remains a policy issue for City Council. |
| 3 | Require all transactions submitted for payment to be made at arms length and in compliance with the City's Procurement Code. |
| | Management Response: Concur, however, because there are no longer any active grantees, this recommendation is not applicable. At the Commission meeting of August 18, 2004 city staff developed and distributed a handout that clearly outlined the requirements for conducting arms length transactions for getting bids and quotes for products and services. It also described the correct procedures for documenting their efforts to obtain the best prices. A similar communication was e-mailed and discussed in-person with each association representative on January 25, 2005. |

BACKGROUND

Provisions set out in Arizona Revised Statutes (ARS) can be used as a mechanism to construct improvements and then charge the cost to specific landowners if they benefit over and beyond what may be a general benefit to other property owners. Under ARS, §48-575, this same concept can be used to charge landowners for the cost of providing enhanced municipal services.

When the EMSD provisions were initially incorporated into state statute (1983), the scope was limited to public safety, fire protection, refuse collection, street or sidewalk cleaning, and landscape maintenance. Planning and promotion activities were added to the list in 1984 and transportation and public parking was inserted in 1991. To use improvement district provisions as a funding mechanism, the proposed area to be served must lie within a designated area² or, if the distinction has been removed, the property must have been, for at least five years, part of a previously designated area.³ Enhanced services other than those listed in state statute cannot be carried out and improvement bonds cannot be used as a source of funding.

Several actions are required if the EMSD provisions are going to be used. First, the council must approve a resolution (or ordinance) declaring the intent to order the work. The resolution must include a brief description of the activity to be provided. Preliminary plans showing the location, type, and character of the improvement as well as an estimate of costs and expenses must be filed with the city clerk.⁴ After approval, the resolution must be printed in a newspaper and notices must be conspicuously placed along the boundary of the proposed district.⁵

The requirement for publication and notice provides property owners with the ability to have a say in whether or not the enhanced service is desired (known as a protest) or if the boundary is correct (known as an objection). For a protest to be valid, state statute requires a majority of owners (determined by property frontage) to sign the paperwork. If this happens, the city is barred from moving forward with the work for six months.⁶ The city may set a hearing

² Designated area is defined in state statute as an area declared to be a slum, blighted, pocket of poverty, or neighborhood strategy area.

³ If more than one-third but less than one half of property owners had filed a protest at the time of formation, the enhanced services could not continue after the removal of the designation.

⁴ The assessment of any lot cannot exceed the proportion of the estimate.

⁵ The resolution of intent, required publication, and posting is not required if all property owners within the proposed District sign a petition.

⁶ Unless a subsequent petition is submitted.

to determine the sufficiency of the protest (i.e., whether or not the signatures are valid) or simply abandon the undertaking.

On an individual basis, a property owner can only object to the boundary of the district. When objections are filed, the city must have a hearing to consider the basis and may, if appropriate, modify the boundary. If this happens, the requirement for resolution of intent, publication, and posting must be met again. If the objections are denied, the city may move forward with ordering, by resolution, the enhanced service.

To determine how the costs of the enhanced service are to be assessed against the property owners, ARS, §48-575D, requires preparation of a diagram of the property contained within the assessment district. Each lot, numbered consecutively, is to be included along with the square footage of the lot and the area in square feet of any buildings on the lot. Prior to any assessment on property, the council is to approve the diagram. Annually, statements and estimates of expenses are to be made and then the amount assessed against the lots in proportion to the benefit that will be received. Once the assessments are complete, a hearing is to be held to provide property owners with an opportunity to object to the legality of the assessment or any previous proceedings.

According to ARS, §48-575B, the procedures to be followed for an EMSD are the same as those set out for other special improvement districts.

History of the Downtown EMSD

A program for promotion was first approved in 1997 and continued for five years. Under contract with the City, a non-profit known as the Downtown Scottsdale Partnership (DSP or Partnership) provided the marketing and promotion work. Incorporated⁷ in May 1997, membership was extended to "each commercial real property owner and each owner of a business located in the District." Documentation indicates that a Board of Directors, composed of not less than 20 and not more than 45 individuals, would be responsible for the operations of the Partnership. Initially, 17 individuals were Directors and Janet Harris (President), Jose Catalan (Vice President), Richard Simonson (Secretary), and Marilyn Atkinson (Treasurer) served as Officers. After formation, the Board of Directors grew to 27 individuals with one-third of the terms expiring every year.

⁷ Records indicate that the Partnership was initially formed by Thomas Giller, Janet Harris, Dewey Schade, and Richard Simonson.

According to historical records, the first five-year program was credited with completing a marketing plan for Downtown; carrying out advertising campaigns for radio, television, and newspapers; developing downtown brochures/maps for hotels, kiosks, and convention planners; supporting special events; and initiating the Farmer's Market, Scottsdale Stampede, and Ambassador Program.

Information presented by the Economic Vitality Department in 2002 credited the effort with an increase in sales tax collected and a reduction in vacancy rates. Staff did, however, state that there was no direct cause/effect correlation to link the results with marketing and promotion efforts.

As the time period for the first work program started to run out, discussions were held with business and property owners about continuation of the work program. In January 2002, property owners petitioned the City to consider continuing the activities. Prior to Council consideration, staff conducted a random phone survey to gauge the level of support.

The results of the survey and other supplemental materials were provided to Council at an April 2002 Work Study session. Plans and Specifications filed with the City Clerk on April 29, 2002, (incorporated into this report as Exhibit C) set out three major goals and several activities. An estimated first year budget projecting expenditures close to \$600,000 was presented for discussion. The insert below shows the revenue and expenses proposed.

| FY 02/03 Proposed Revenue and Expenses | |
|--|------------------|
| REVENUES | |
| Assessments within EMSD | \$544,000 |
| LESS: Uncollected Assessment (5.0 percent) | (\$ 27,200) |
| Possible Additional Contributions/In-Lieu Advertising | \$ 80,000 |
| Total Possible Revenues | \$596,800 |
| EXPENDITURES (not including additional contributions) | |
| Salaries and Benefits | \$136,100 |
| Operations | \$ 80,435 |
| Marketing and Promotion | \$378,100 |
| Total Estimated Expenditures | \$594,635 |
| Net Income | \$ 2,165 |

SOURCE: Resolution #6060 approved by Council on April 29, 2002.

To allocate the expenses of promotional activities, a methodology was proposed that took into consideration the size of the building and business

activity.⁸ In consideration of the multiple years that the promotional activities would be provided, Council was provided an option to include incremental increases with a 2.5 percent maximum increase annually. According to the staff report, the annual increase would allow the same level of promotional activity to take place if inflation caused the cost of advertising to increase. After consideration, the annual increase was approved with the understanding that any escalation would be at the discretion of Council. The insert below shows the assessment categories and maximum rates approved as part of the resolution of intent.

Proposed Assessment Categories and Maximum Rates*

| Assessment Categories | Unit | Rate 2002 | Rate 2003 | Rate 2004 | Rate 2005 | Rate 2006 |
|---|--------------------|------------------|------------------|------------------|------------------|------------------|
| Retail/Restaurant/Bar - 1 st Floor | Square Foot Usable | 0.3500 | 0.3588 | 0.3677 | 0.3769 | 0.3863 |
| Retail/Restaurant/Bar - 2 nd Floor | Square Foot Usable | 0.2800 | 0.2870 | 0.2942 | 0.3015 | 0.3091 |
| Retail/Restaurant/Bar – Vacant | Square Foot Usable | 0.1750 | 0.1794 | 0.1839 | 0.1885 | 0.1932 |
| Office | Square Foot Usable | 0.0650 | 0.0666 | 0.0683 | 0.0700 | 0.0717 |
| Office-Vacant | Square Foot Usable | 0.0325 | 0.0333 | 0.0341 | 0.0350 | 0.0359 |
| Hotel/Motel | Room Night | 0.1700 | 0.1743 | 0.1786 | 0.1831 | 0.1876 |
| Land-Vacant | Square Foot | 0.0100 | 0.0103 | 0.0105 | 0.0108 | 0.0110 |
| Residential | Unit | 0.0100 | 0.0100 | 0.0100 | 0.0100 | 0.0100 |

*Includes 2.5 percent maximum annual incremental increase.

SOURCE: Resolution #6060 approved by Council on April 29, 2002.

Exhibit D illustrates the district boundary reaffirmed in 2002. As part of the resolution, public streets, alleys, and lots owned by the United States, the state, any county, school district, or other political subdivision were omitted from the assessment. Residential units with four or fewer units per building are also excluded. Under terms approved, the authority to impose new assessments expires December 31, 2006, unless Council elects to reauthorize the work for additional five-year periods. At a subsequent Council meeting, a requirement for a new comprehensive engineering study and additional hearings was added to the provisions for reauthorization.

On May 28, 2002, Council met to consider any objections to the work and at the conclusion of the meeting, Resolution #6083 was approved. Publication of

⁸ The methodology was similar to what was in place for the prior five-year period with the exception of some minor changes.

the work to be completed and a request for bids was made as required under state statute. According to the request for bids, interested parties seeking to perform the services were to respond with a proposed marketing and advertising plan, outline how the Downtown constituents would be brought into the process, and submit a detailed project schedule and a proposed budget showing how the funds would be allocated.

The award of work and the budget for the work plan was considered on July 2, 2002. Of the seven bids received, two proposals were determined by staff to be the best alternatives:

Cramer-Krasselt – The proposal submitted by Cramer-Krasselt (C-K) focused solely on providing services for marketing and promotion. When requested to submit a "best and final" proposal targeting a budget of \$500,000, the firm submitted a Marketing Plan with a budget of \$370,000 for advertising, \$50,000 for the preparation of the Visitors Guide and Map as well as other materials, \$70,000 for special events, and \$10,000 for website updates and miscellaneous other costs. The proposal included a request for an "EMSD Marketing Manager" to collect input from Downtown constituents, visit the specialty districts, and provide focused direction to C-K.

Downtown Scottsdale Partnership – DSP proposed to continue the same relationship that existed under the first work program. DSP would manage the "District" using the assessment, funds contributed by the City, and supplemental fund raising activities to pay salaries, overhead, and other expenses of DSP and handle the marketing for Downtown. For marketing, DSP proposed working with an advertising agency such as the firm handling advertising for the CVB. The actual selection of the firm had not been made by the time the proposal was submitted.

At the conclusion of the Council meeting, a hybrid alternative was selected. The contract for actual promotional activities was awarded to C-K and a management contract was awarded to DSP to serve as marketing manager. The total expenditures were set at \$633,400 with a \$100,000 contribution from the City and \$535,000 assessed to property owners. The insert on the following page shows the statement of expenses approved as part of Resolution #6112.

| FY 02/03 Approved Revenues and Expenses | |
|--|------------------|
| REVENUES | |
| Assessments within EMSD | \$535,000 |
| City Contribution | \$100,000 |
| Total Possible Revenues | \$635,000 |
| EXPENDITURES | |
| Uncollected Assessments (4.0 percent) | \$ 21,400 |
| Management/Operations/Special Events Coordination | \$ 97,000 |
| Annual EMSD Update-Engineering, Legal, Advertising | \$ 15,000 |
| Marketing, Promotion, Public Relations, Special Events | \$500,000 |
| Total Estimated Expenditures | \$633,400 |
| Net Income | \$ 1,600 |

SOURCE: Council Resolution #6112A on file with the City Clerk for the July 2, 2002, meeting.

The following year, a statement and estimate of expenses was submitted to Council for the second assessment. Proposed expenditures totaled \$627,500 with \$100,000 contributed by the City. Ultimately, the assessment was set at \$517,736 and a budget of \$612,000 was adopted. According to the Notice of Assessment, the land use categories and assessment rates for FY 03/04 remained the same from those used in the prior year.

When the second year assessment was set, Council approved a six-month contract with DSP and continued the funding with C-K for marketing. As part of the motion to approve the assessment, Council directed staff to research; develop; and agendize, within 120 days, an ordinance to establish a Downtown Scottsdale Commission. As part of the motion, the proposed scope of the Commission would include:

- Managing the expenditure of EMSD marketing funds.
- Creating and maintaining a Downtown Scottsdale Marketing Plan.
- Advising City Council on policy matters concerning Downtown Scottsdale such as parking, land use issues, proposed ordinances, etc.

Staff, however, was given the latitude to bring back alternative proposals for oversight. In November 2003, City management brought a proposed structure to Council for consideration. The Commission was crafted to be comprised of seven members, one from four specialty districts (Old Town, 5th Avenue, West Main, and Marshall Way), one from the area within the boundary not reflected in one of the specialty districts, and two members at large representing property owners in the boundary area. Of the seven appointments, at least one member had to be selected to represent the hotel land use.

To address the issue of business owners and property owners that might not be Scottsdale residents, a committee structure was also incorporated to allow the Commission members to appoint individuals that could not serve on a Council appointed commission. Three committees (marketing, promotions, and special events), consisting of five members, could be established.

According to Ordinance #3532, the purpose of the EMSD Commission is to act as an advisory body to the City Council on matters concerning the expenditure of revenues raised from the assessment. To carry out this role, the Commission is to recommend an annual budget for marketing and special events. Funds raised as a result of the assessment are to be used to promote the area as a destination and attract visitors.

Current History

The EMSD Commission started meeting in January 2004. During the first six months, the Commission appointed a marketing "working group," reviewed past activities, and worked on the FY 04/05 Marketing Plan. One of the first actions taken by the group was to direct staff to take steps to not renew the contract with C-K and to initiate a process for a replacement agency.

In May 2004, a Request for Proposal to solicit a new marketing consultant was distributed. Eight proposals were received and an evaluation group reviewed what was submitted. Three finalists were brought in to present their proposal and answer questions. At the conclusion, the evaluation group proposed that a local firm known as Olson Communications be selected. The Commission voted on the selection on June 16 and made the recommendation to Council.

At the June 22, 2004, meeting, Council set the assessment for FY 04/05. Exhibit E shows the Council Action Report and Resolution approved as a result of the actions taken during this meeting. The contract for marketing services was awarded at the July 7, 2004, Council meeting.

Marketing Consultant

The contract for the 2004/2005 Marketing Program was structured as a professional services arrangement with a budget "not to exceed" \$500,000. The initial term was for one year (through June 2005) with four, one-year extensions at the recommendation of the Contract Administrator and with concurrence of the Purchasing Director and Consultant and approval by Council.⁹

⁹ During the audit, Olson Communications sent a request to the City to be released from the terms of the contract effective with the end of the first year.

The scope of work outlined in the contract is as follows:

1. With input from the EMSD Commission, develop a strategy for marketing and advertising for each of the Downtown five specialty districts. Marketing emphasis will be geared towards local and regional markets. Identify leverage opportunities to coordinate and collaborate with the CVB.
2. Promote activities that support all of Downtown while recognizing the uniqueness of the individual specialty districts.
3. Develop or update various publications and brochures such as the Downtown map, directory, restaurant guide, etc.
4. Develop and/or continue strong public and media relationships through cooperative advertising and other leverage opportunities.
5. Secure promotional opportunities for Downtown at metropolitan Phoenix (and especially Scottsdale) signature events.
6. Provide marketing support (advertising, promotions, and marketing) to individual Districts for events and related activities funded by District Area Grants.
7. Administer the Area Grant Program by tracking expenditures, verifying documentation, and processing reimbursement requests from grantees.
8. Communicate marketing and promotional activities of the EMSD to the Commission, the various Downtown merchant and property owners associations, and the CVB.
9. Establish performance measures and develop a mechanism for input, feedback, and reporting progress to the EMSD Commission.

The fee schedule for the work to be performed was structured so that the Consultant received a monthly "retainer" of \$7,500 for planning, public relations, grant administration, overall consulting, account management and coordination, meetings, and administration. Residual funds were allocated to projects to be completed. To control project costs, a requirement for a project estimate and approval of the estimate by the Contract Administrator prior to the start of work was incorporated into the Fee Schedule.

The contract requires the Consultant and any subcontractors to maintain appropriate insurance. If work is contracted out, the use of subcontractors are to be approved by the Purchasing Director and Contract Administrator. According to terms, any amendment, modification, or variation from the terms of the contract must be in writing. The change will only take effect upon the approval of all parties. There is, however, a provision for changes in the work if the need arises. Section 4.20 of the contract sets out a process in which the City can order changes within the scope of work. If changes increase or

decrease the amount due or the time required for performance, the adjustment is to be authorized by a written change order.

Marketing Plan

In August 2004, the Consultant presented a preliminary Marketing Plan to the Commission. The marketing strategy focused on a target audience residing within 30 miles of Downtown Scottsdale with a secondary target of Scottsdale and Phoenix visitors. Communication objectives included 1) communicating compelling reasons why one should consider Downtown Scottsdale and 2) strengthening the position of Downtown Scottsdale in FY 04/05 to provide the marketing platform to increase brand preference in the upcoming years. The Marketing Plan (and the budget approved by the Commission) is set out in Exhibit F.

Distribution of Project Budget

With the approval of the Marketing Plan, the Commission approved the following project allocations:

| FY 04/05 Allocations | |
|-------------------------------|------------------|
| Map and Directory re-print | \$ 56,000 |
| Marketing Plan Development | 15,000 |
| Creative Campaign Development | 25,000 |
| Advertising Production | 25,000 |
| Media Placements | 102,803 |
| Area Grants | 159,000 |
| Website Update | 7,197 |
| Contingency | <u>20,000</u> |
| TOTAL | \$410,000 |

SOURCE: August 11, 2004, EMSD Commission Minutes.

In October, a discussion on the use of monies accumulated from previous years' carryover of unused funds was held with the Commission. At the conclusion, the Commission voted to allocate the funds to a reserve, area grants, and overall EMSD needs. At the following meeting, the \$115,900 carryover was distributed to area grants (\$50,000), overall marketing (\$45,900), and contingency (\$20,000).

Expenditures Year-to-Date

As of May 2005, almost \$447,000 had been paid out. Of this amount, a little over \$240,000 had been paid to the Consultant for the monthly retainer, development of the Marketing Plan, printing of new maps and directories, and other services. The schedules on the following pages recap the total expenditures and the use of area grant monies through June 30, 2005.

**Downtown Promotion Program
Source and Use of Funds
As of June 30, 2005**

Source of Funds

| | | |
|--|-----------|-----------|
| Collection of Assessments – Schedule 1 | \$516,464 | |
| Re-payment of expense posted in error | <u>75</u> | |
| Total Source of Funds | | \$516,539 |

Use of Funds

| | | |
|---|---------------|----------------|
| Administrative – Schedule 2 | \$162,316 | |
| Advertising Opportunities – Schedule 3 | 151,534 | |
| Specialty District Branding – Schedule 4 | 51,928 | |
| Special Event Grants – Schedule 5 | 105,490 | |
| Downtown Experiences – Schedule 6 | 26,958 | |
| Maps – Schedule 7 | 58,047 | |
| Prepaid for Next Fiscal Year – Schedule 8 | 15,486 | |
| Other – Schedule 9 | <u>21,815</u> | |
| Total Use of Funds | | <u>593,574</u> |

Excess/(Deficit) – July 1 through June 30, 2005 \$ (77,035)

Excess Funds Carried Over at Beginning of Fiscal Year 115,922

Excess Funds Inception-to-Date through June 30, 2005 \$ 38,887

Reconciliation to Trial Balance

| | | |
|-------------------------------------|-----------------|------------------|
| Funds Available as of May 31, 2005 | \$98,359 | |
| Receipts in Transit | 4,485 | |
| Accounts Payable | <u>(63,957)</u> | |
| Funds Available as of June 30, 2005 | | <u>\$ 38,887</u> |

**Downtown Promotion Program
Source and Use of Funds
Supplemental Schedules**

Schedule 1

| | | |
|-------------------------|-------------|------------------|
| Assessments Collected | | |
| 2004 Assessment | \$506,658 | |
| 2003 Assessment | 9,839 | |
| Adjustment for Interest | <u>(33)</u> | |
| Total Assessments | | <u>\$516,464</u> |

Schedule 2

| | | |
|--|--------------|------------------|
| Administrative Expenses | | |
| Engineer - Update Assessment 2004 | \$ 15,000 | |
| Engineer - Update Assessment 2005 | 12,168 | |
| Marketing Consultant | | |
| Retainer | \$90,000 | |
| Marketing Plan | 15,000 | |
| Creative Development | 19,417 | |
| 2004 Marketing ReCap | 2,329 | |
| FY 05/06 Plan Development | 2,153 | |
| Public Relations Initiatives | <u>2,748</u> | |
| Total Payments to Marketing Consultant | | 131,647 |
| Transcription Services | | 2,770 |
| Advertising for Assessment | | <u>731</u> |
| Total – Administrative Expenses | | <u>\$162,316</u> |

Schedule 3

| | | |
|--------------------------------------|---------------|-------------------|
| Advertising Opportunities | | |
| Advertising in NASCAR Programs | \$ 8,864 | |
| City's Finest Magazine | 5,779 | |
| City View Hotel Room Spot | 4,375 | |
| Quick Guide | 7,585 | |
| Program for the Arts | 11,048 | |
| Lion King Play Bill – Two Placements | 9,938 | |
| Rock 'n' Roll Marathon Sponsorship | 22,153 | |
| Fiesta Bowl Ad | 7,783 | |
| Barrett-Jackson Program Ad | 2,792 | |
| Arabian Horse Show Program Ad | 1,486 | |
| Phoenix Magazine | 8,013 | |
| Giants | 10,208 | |
| Cubs | 1,899 | |
| Valley Guide | 5,982 | |
| June Get Out Section – Tribune | 3,893 | |
| June Radio Spots | <u>39,736</u> | |
| Total – Advertising Opportunities | | <u>\$ 151,534</u> |

**Downtown Promotion Program
Source and Use of Funds
Supplemental Schedules Continued**

Schedule 4

Specialty District Branding

| | | |
|-------------------------------------|--------------|-----------------|
| 5 th Avenue | | |
| Banners | \$ 1,255 | |
| Brochures | 5,609 | |
| Marshall Way | | |
| Print Media | 13,992 | |
| Banners | 2,124 | |
| Miscellaneous | 2,044 | |
| Photography | 2,361 | |
| Main Street | | |
| Website | 2,000 | |
| Old Town | | |
| Brochures | 5,880 | |
| Re-stocking Service | 4,388 | |
| Brown and Stetson | | |
| Print Advertising | 10,907 | |
| Arts Districts Joint Projects | <u>1,368</u> | |
| Total – Specialty District Branding | | <u>\$51,928</u> |

Schedule 5

Special Events

| | | |
|---|--------------|------------------|
| ArtFest™ | \$ 5,000 | |
| Thieves Market | 17,365 | |
| Farmers Market | 6,036 | |
| Made in Arizona | 4,734 | |
| Fifth Avenue Ice Cream Social | 3,500 | |
| Main Street ArtWalks | | |
| Annual Promotional Consultation | 12,000 | |
| Western Artwalk – Promotion & Advertising | 3,175 | |
| Entertainment | | |
| Western Artwalk | 1,300 | |
| Blue Night | 600 | |
| Rock and Roll | 675 | |
| Spring Festival | 500 | |
| Bon Appetite | 775 | |
| Marshall Way Artwalks | | |
| First Thursday Entertainment | 5,805 | |
| Evening of Discovery | 1,989 | |
| Fiesta Bowl Related Activities | 6,992 | |
| Summer Spectacular – 2004 | 6,437 | |
| Spring Festival | | |
| Cars for Event | 8,750 | |
| Other Costs | 4,799 | |
| Best of Scottsdale | 7,417 | |
| Parada Trails End Pancake Breakfast | 2,641 | |
| Ultimate New Year's Eve Daytime Event | <u>5,000</u> | |
| Total – Special Events | | <u>\$105,490</u> |

**Downtown Promotion Program
Source and Use of Funds
Supplemental Schedules Continued**

Schedule 6¹⁰

Downtown Experiences

| | | |
|--|--------------|-----------------|
| Singing Cowboy | \$9,900 | |
| Entertainment on Spring Training Trolley | 9,408 | |
| Free Horse Trolley Rides | <u>7,650</u> | |
| Total – Downtown Experiences | | <u>\$26,958</u> |

Schedule 7

Maps

| | | |
|-------------------|--------------|-----------------|
| Map and Directory | \$56,000 | |
| Ambassador's Map | <u>2,047</u> | |
| Total – Maps | | <u>\$58,047</u> |

Schedule 8

Prepaid for Next Fiscal Year

| | | |
|--|--------------|-----------------|
| Phoenix Magazine Ad for Arts Districts | \$7,116 | |
| Desert Advocate – Summer Spectacular | 1,600 | |
| ArtTalk Magazine – June/July | 1,210 | |
| Summer Spectacular – 2005 | 3,625 | |
| First Thursdays Artwalk Summer | <u>1,935</u> | |
| Total – Prepaid | | <u>\$15,486</u> |

Schedule 9

Other

| | | |
|--|------------|-----------------|
| Visitor Cart | \$1,842 | |
| Lunches for Band Members | 1,600 | |
| Website Update | 2,738 | |
| Artwork for 2005 Destination Guide | 250 | |
| Brochure Distribution | 4,258 | |
| Trolley – Cost-Sharing for Stop Downtown | 2,636 | |
| Map Kiosks | 3,068 | |
| Concierge Outreach | 4,602 | |
| AZ Central Website Update for 5 th Avenue | 525 | |
| Destination Guide and Map | <u>296</u> | |
| Total – Other | | <u>\$21,815</u> |

¹⁰ This category does not include expenses that were attached to a particular special event.

Revenue Year-to-Date

Assessment revenue is cyclical in nature with one half of the amount due in October and the other half due in May. The insert below shows the amount charged by fiscal year and the collections reported by the Maricopa County Treasurer as of May 2005.

| Downtown Promotion Program Summary of Assessments FY 02/03, FY 03/04, and FY 04/05 | | | |
|---|-----------------|-----------------|-----------------|
| | FY 02/03 | FY 03/04 | FY 04/05 |
| Net Assessments After Corrections | \$540,847 | \$515,923 | \$515,681 |
| Received per Treasurer* | | | |
| FY 02/03 | 529,325 | | |
| FY 03/04 | 11,522 | 506,084 | |
| FY 04/05 | <u>0</u> | <u>9,839</u> | <u>486,557</u> |
| Assessments Outstanding | 0 | 0 | \$ 29,124 |
| * Payments remitted to Treasurer as of May 2005. | | | |

SOURCE: Audit analysis of reports from County Treasurer.

Objective 1: Verify that the assessment methodology follows the parameters approved by Council when the work was ordered.

Finding: The assessment methodology has followed the parameters approved by Council but appropriate quality control measures would improve the results.

Criteria: Calculations of assessment should follow methodology approved when the work was ordered.

Condition: The City contracts with an outside firm (Engineer) to update the status of property within the District and then calculate the assessment for the upcoming tax year. When finalized, the Engineer sends a notice to each property owner setting out the proposed assessment, the estimated expenditures for the upcoming year, and the process available for disputes.

We obtained the documentation for the proposed assessment for tax year 2005 and reviewed the calculation. The methodology agreed to what was approved in 2002.

In reviewing the assessment classifications, however, we noted that there were discrepancies in the assignment of use to parcels. Because this assignment drives the assessment, the failure to treat all like situations in the same manner creates disparities in the amount paid by different property owners even though the building, lot size, and use may be the same.

Cause: The Engineer has an established process for calculating the assessment but procedures are not sufficient to ensure that the assignment of use categories is consistent.

Effect: The methodology used for the assessments for years 2002, 2003, and 2004 as well as the proposed assessment for 2005 has followed, in material aspects, what was approved.

Objective 2: Verify that funds raised as a result of the assessment are used in a manner that provides assurance that the goals of the program will be achieved.

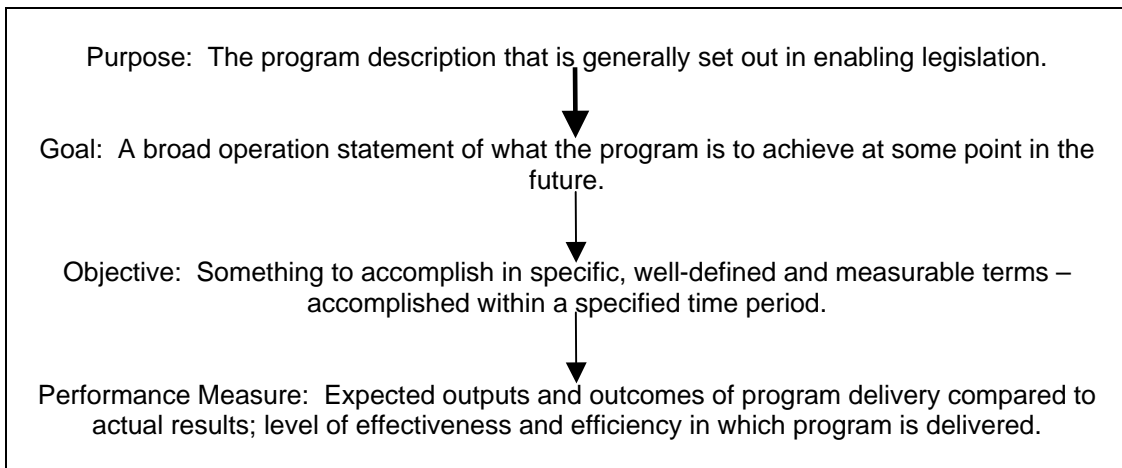
Finding: Funds have been used to carry out a wide range of activities under the umbrella of promotional efforts; changes in program delivery and oversight are needed if the goals are to be met.

Criteria: Evidence should be available to ascertain that activities funded by District assessments and City contributions were designed to achieve the goals of the Promotional Program. Sufficient evidence would consist of 1) a long-term work program and annual objectives tied to program goals, 2) criteria for special events that would receive funding, and 3) a performance measurement system. A performance measurement system is described as:

A Performance Measurement System is intended to provide accountability to citizens regarding the relationship between a program's inputs and its ultimate purpose. It uses performance measurements to assess, monitor, and improve the accomplishment of program and service delivery goals and objectives.

SOURCE: "An Elected Official's Guide to Performance Measurement," Government Finance Officers Association.

The relationship between the goals, objectives, and measurements can be illustrated as follows:



Condition: There is no historical data that can be used to reach a conclusion that activities carried out under the umbrella of the Program achieved or made progress in achieving the goals set out.

1. A general program description and goals were set out in 2002 prior to Council authorization to provide enhanced services. A long-term work program, though, was not developed either before soliciting for a service provider or as a deliverable under the first year of the Program. While there was a clear expectation set out as part of the initial plan submitted to the Council that various types of data would be collected and annual, comprehensive efforts made to survey the market and customer base; there was no follow through to ensure that this work was done.

Performance evaluations, set out as a requirement in the first Marketing Contract, were not undertaken at the end of the first Program year. Moreover, existing goals were not reviewed with the stakeholders to ensure that they were still valid. Annual Program objectives were not set and disseminated for review and comment as part of the process to develop the estimate of expenditures used to set the assessment.

As well, marketing objectives were set out as part of the Marketing Plan approved by the Commission in August 2004 but there is no link between what was set out in the 2002 work plan, a long-range vision for Downtown, past performance or an outreach effort to property owners or businesses in Downtown.

Finally, while marketing targets were established as part of the Marketing Plans, there is no indication that they were used as a means of evaluating whether or not an ad placement would be effective or whether a project should be supported.

2. One of the initial Council approved goals outlined in 2002 was to produce special events that would draw repeat customers and visitors to the area. Contrary to the process set out in City Code for use of tourism funds,¹¹ there was no requirement for Council approval when using assessment monies to fund or produce specific events. This requirement would have provided stakeholders with additional insight into the use of the funds, the associations or entities receiving support, and the amount of the budget allocated to this use.

Moreover, adequate controls were not in place to monitor the amount of assessment monies dedicated to producing special events or ensure that the funds were used in compliance with requirements set by City Code. After the EMSD Commission was formed, the strategy for program delivery was changed without submitting the modification to Council for approval or

¹¹ Tourism funds are the portion of additional tax on transient lodging designated for use in tourism development.

reviewing the proposed change with the property owners paying the assessment. As a result, funds were directed towards specialty district branding. Area grants, once restricted to providing assistance with events, were allocated to the specialty districts with greater latitude given to district representatives in determining how the funds would be spent.

3. Appropriate management controls were not put into place to measure, report, and monitor performance. Measurable, relevant, timely performance measures were not established on an annual basis for the overall Program. The Consultant hired in 2004 was not held accountable for the development of measures that could be used to evaluate the effectiveness of actions provided under the contractual arrangement.

Cause: No City employee, appointed group, or hired Consultant was chartered with the responsibility to ensure that the goals outlined when the work was ordered were monitored, reviewed periodically for appropriateness and potential modification, if necessary, and ultimately used as a tool to evaluate the efforts and accomplishments as a part of the annual assessment process.

After the promotional work was ordered and the assessment set, the Program was not folded into the City operations in a manner similar to other programs. A detailed operating budget, work program, and performance measures were not required as part of budget development. Staff was not required to present results from prior actions for consideration when requesting funding for the next Program year.

Clear direction of the expectation to ensure that the initial goals (set out in 2002) were met was not incorporated into the scope of work given to the Commission.

Effect: Over the first three years of the current Program, assessment funds have been spent for a wide variety of efforts. There is no indication, however, that significant progress was made in achieving Program goals.

The lack of a long-term work plan promoted the inefficient use of resources. This can be demonstrated through the expenditure of funds to create a Marketing Plan and creative ad campaign with one consultant only to turn around and abandon the work two years into the process. This necessitated spending additional funds the third year to develop a new Marketing Plan and creative ad campaign.

The inefficient use of funds was further promoted with the failure to set criteria for use in evaluating requests for special events. During FY 04/05, the

Commission set aside almost one-third of the available monies for distribution as "area grants." While there was a grant application and boundaries outlining what the funds could be used for, specialty districts were generally given the latitude to spend the money as they saw fit. As a result, funds were used to pay for a wide range of "creative" services (i.e., banner design, photography, promotional services, and website updates) provided by other promotional consultants, individuals associated with business owners, and merchants within the EMSD area. With money being directed to "area grants," less funding was available for advertising to support the Downtown area as a whole.

| |
|--|
| Objective 3: Verify that statutory requirements have been followed. |
|--|

Finding: The statutory requirements governing the decision to provide enhanced municipal services as well as those requiring certain actions on an annual basis have been followed.

Criteria: Statutory requirements for EMSDs are set out in Article 2, Chapter 4 of Title 48. Chapter 4 deals with Municipal Improvement Districts and Article 2 deals with the specifics of general public improvements and Improvement Bonds. For an EMSD, the process to initiate the work includes a public hearing process, notice to affected property owners, a means to protest work to be formed or object to inclusion, a public process to set the assessment, and a means to allocate the amount to the property owners.

Condition: Documentation was available to evidence that the City held a meeting setting out the intent to provide the enhanced municipal services, a second meeting to adopt the resolution ordering the improvement, and a third meeting to award the contract. Notices were published, posted, and mailed. The assessment diagram and a general work program was filed with the City Clerk prior to the decision to order the work and the request for bids was published both times the City sought the services of a marketing consultant.

Annually, a Notice of Assessment was provided to property owners, publication of the proposed assessment and hearing occurred, and the required hearing was held.

Cause: The Office of the City Attorney and outside legal counsel was involved in setting out the processes to be followed.

Effect: Reasonable assurance that statutory requirements were followed when carrying out the administrative tasks associated with ordering the work and setting the annual assessment.

Objective 4: Verify that controls are in place to ensure performance under any contracts entered into as part of the program of work or necessary for the ongoing assessment.

Finding: Controls need to be strengthened to ensure performance under contracts entered into for professional services.

Criteria: A properly documented contract with a sufficient scope of service and detailed deliverables should be present for work performed. The designated Contract Administrator should be able to demonstrate adequate oversight of services, deliverables, and invoices for services rendered.

Condition: Services for the Promotional Program were provided under four separate arrangements:

1. Contract for management services with DSP.
2. Marketing Consultant for FYs 02/03 and 03/04.
3. Second Marketing Consultant for FY 04/05.
4. Engineering firm hired to do the initial assessment and updates.

Engineering Services

The contract for the initial assessment was taken to Council for approval in 2002; subsequent arrangements have been administratively awarded. The 2004 contract provided for two extensions. Terms were structured as a fixed fee of \$15,000 to update the use classifications, calculate the assessment, and prepare the required notices. An additional amount up to \$2,000 was allocated for project follow-up to be billed on an hourly rate if needed. The scope of services was limited to updating the database to determine the appropriate assessment and providing the notification required for statutory compliance. Missing from the scope was any requirement to follow up, on a timely basis, with the Assessor's Office to ensure that the data provided was sufficient to allow an accurate assessment. Also missing was a requirement to ensure that the assessment amount provided to Council at the time of the hearing on estimated expenditures was accurate, agreed with the amount provided to the Assessor, and ultimately captured as the assessment for the District. Finally, also missing was any discussion on the level of effort to be put forward to "update" the information. There was no requirement for an on-site visit to ensure appropriate use, no requirement for the square foot of buildings assigned to lots to be verified for accuracy, or for an update to the parcel map.

To verify the accuracy of the work of the Engineer, we obtained the assessments prepared by the Engineer for FYs 02/03, 03/04, and 04/05; the

Council resolutions setting the assessments for each of those years; and a report from the County showing the actual levy. We could not reconcile what was set to the amount levied. The insert below shows the differences in the assessment set by Council, the initial levy per the Treasurer's records, and the current adjusted levy.

| Comparison of Assessment Set to Actual Levy | | | |
|---|----------------|-----------|----------------|
| Year | Set by Council | Per Levy | Adjusted Levy* |
| 2002 | \$535,000 | \$541,504 | \$540,847 |
| 2003 | \$517,726 | \$516,602 | \$516,023 |
| 2004 | \$517,203 | \$516,488 | \$515,680 |

*Adjusted Levy = Initial Levy minus corrections for Resolutions.

A Resolution is a change such as a parcel split or combination. These actions will impact collections if changes are not monitored to ensure that the assessment flows with the new record.

SOURCE: Audit analysis from Council Action Reports and County Treasurer Reports.

For FY 04/05 we obtained a detailed report from the Maricopa County Treasurer setting the levy processed for that year and compared the adjusted levy to the assessment list provided by the Engineer. After making adjustments for discrepancies between the two lists, we could reconcile the amount levied to the assessment prepared by the Engineer. Four assessments did not get processed due to incorrect information on the list presented by the Engineer.

Finally, we conducted a field test of use categories for a sample of property within the boundary and verified the assignment of assessment numbers to lots by obtaining an aerial map with parcel information overlays from the City's Geographic Information System (GIS). We found multiple instances in which the information provided by the Engineer did not agree to what we found in the field and multiple instances in which detail such as parcel numbers or lot size did not agree to County records.

There was no indication that the Contract Administrator had performed any spot checks to verify the accuracy of the information presented by the Engineer or incorporated steps to ensure that the assessment presented to the Council agreed to the information presented to the County Assessor.

Marketing Consultant

Two distinctly different contracts were used to obtain the services of a marketing consultant for the Promotional Program. The first contract, in effect from July 2002 through June 2004, set out specific requirements for the Consultant and assessments that the City would undertake to evaluate the performance of the Consultant. While there is no indication that the assessments were ever carried out, the process was at least incorporated. Similarly, the contract also required a written proposal for an annual work program, operating budget, and proposed modifications to the annual assessment. For payment of services, the Consultant was required to submit invoices with fees and costs incurred during the period listed, the cumulative total of payments made to date, and the unbilled amount remaining. In addition, if the Consultant received any commissions or other compensation from media outlets for media purchases and placements, the amount that could be received was limited to 15 percent. The contract specifically stated that the cost of media purchases and placements could not be increased by the commission paid to the Consultant.

The proposed fee structure for the first year consisted of a budget of slightly under \$94,000 for agency hours related to creative efforts (concept development, copywriting, art direction, etc.) and strategic planning. Approximately \$334,000 was allocated to media placement and hard costs associated with photography, printing, clipping services, etc. The balance (\$72,000) was set aside for area grants.

In July 2004, the City terminated the contract with the first Consultant and entered into a new arrangement with a different firm. While the amount set aside for service delivery was the same as what was available to the first consultant, the specifications, requirements, and terms of this new contract were not as extensive as what was used to document the relationship between the City and the first Consultant. More importantly, though, the scope of services changed. Instead of setting out clear deliverables, broad expectations such as those listed below were used.

- With input from the EMSD Commission, develop a strategy for marketing and advertising for each of Downtown Scottsdale's five specialty districts.
- Promote activities that support all of Downtown while recognizing the uniqueness of the individual specialty districts.
- Develop and/or continue strong public and media relationships through cooperative advertising and other leverage opportunities.

The fee structure was set out as a monthly retainer of \$7,500 (\$90,000 in total). In return for this payment, the Consultant was to provide planning services, public relations, grant administration, overall consulting, account

management, attend required meetings, and provide the administration necessary for the services. The contract did not specify a minimum number of hours to be provided in return for the retainer nor did it call out an expectation for services to be provided by designated staff.

The balance of funds available was allocated to projects and broken out as strategy development activities (\$50,000) and area grants/initiatives (\$360,000). If any work was to be performed by a subcontractor, the arrangement was to be approved by the City (both the Contract Administrator and the Purchasing Director) prior to the start of the relationship. This did not occur. As a result, the arrangement between the primary Consultant and subcontractor used to provide creative direction, art direction, and production work was not documented. This created a situation in which there is no controlling document setting out what fees can be charged by the subcontractor, the hourly rate to be charged for the various services rendered, or the Consultant's obligation to monitor the costs submitted for this work.

While the Contract provided a means to control costs, the Contract Administrator did not require the Consultant to provide an estimate of cost prior to the start of a project. Instead, the Commission approved a "budget" for the different services to be provided in August 2004. Once this was done, the Consultant was not required to define the scope of work to be completed, set out what would be charged against the project, or outline the fee schedule that would be used to determine charges and due dates.

As a result, the arrangement was treated as a fixed fee contract instead of the "not to exceed" structure set out in the contract. The Consultant was not required to record and submit the time spent for each task completed. There was no set per hour rate to be charged for services and there was no control over the expenses that could be passed on for services such as couriers and printing.

More importantly, we found that the Consultant was not required to submit appropriate documentation to support charges listed on invoices or area grants paid with funds provided by the City. As a result, when the audit started, there was no documentation other than invoices on file to support the payments made.

After receiving supporting documentation from the Consultant, it was noted media placements and production work were not billed as actual. In some situations, the City was billed the entire cost of a media placement even though the Consultant received a discount and in other cases the cost was marked up before submitting the charge to the City. There was no provision for this in the Contract.

In reviewing Commission minutes, we found several instances in which the EMSD Commission raised the issue of paying a "mark up" on media placement and production work. Staff stated that it was a requirement. We found nothing to support this position. Moreover, we found inconsistency in both application and what the Commission was told. When the media placement was discounted, this 15 percent discount became the mark up. When there was no discount offered, the Consultant added 17.65 percent to the media placements even though the Consultant's subcontractor told the Commission at the August 2004 meeting that the media commission would be 15 percent. More importantly, though, this mark up was added to the total cost regardless of the nature of the agreement. According to staff, the mark up is justified as follows:

Media placement mark-up – compensates someone to research and secure the best possible rates for items such as print ads and radio spots. It includes seeking out the most appropriate publications for ad placement at the most opportune times. It covers the time it takes for agency personnel to shepherd an ad through to publication. They make sure the ad/radio spot is placed in the exact space that it was purchased for. They make sure the client gets what it paid for.

Printing and production mark-ups – compensate someone to research and secure the best possible rates for printed materials. It covers the time and cost for managing the printing and production projects (working with creative staff to make sure everything is ready for print/film crew, on air talent; oversight of the printing/production process and distribution of materials to the client). It also requires the marketing agency to be the responsible party from a financial standpoint for the production of the materials. In other words, if there is a problem with the printing order, it is the marketing consultant's financial responsibility to make it right.

In reality, though, the "mark up" simply increased costs in situations in which the Consultant was nothing more than a representative of the City. For example, the Commission wanted to continue advertising at Spring Training. The published fee for a second tier sponsorship was \$7,500 and this is what the City paid, along with a 17.65 percent mark up. The Consultant did not determine that this was an appropriate outlet for advertising and the fee "negotiated" was no better than what was available to any other willing party.

In this particular example, the City paid the commission (purported to be payment to negotiate the placement and shepherd the ad through development) and also paid additional fees to produce the ad (art and creative direction, account management, and production costs) and a new banner concept. Ultimately, advertising at Spring Training cost a little over \$10,000, a 33 percent increase over the \$7,647 budget approved by the Commission. We found no indication that the Consultant requested approval of the

Commission or Contract Administrator to increase the budget once it became apparent that the costs would exceed what was projected.

Paying a commission based on a percentage of what is "negotiated" can be a negative incentive. Using the example above, the same advertising opportunity was available for \$6,750 purchased separately from the sponsorship that provided game tickets. There is no record in Commission minutes that indicates that the Consultant raised the issue on the need to purchase game tickets.¹² Buying the sponsorship package effectively added a little over \$130 in mark up to the Consultant.

Finally, the contract is silent on how artwork and creative development could be billed and this was not addressed prior to the start of work. The Commission approved a project budget of \$25,000 for creative campaign development. The project scope was not set out and there is no documentation of what can be charged or the deliverables to be provided. Under this classification, the Consultant billed for concept development, art direction, and other similar charges. Without documentation that can be used to set the parameter for billing as creative campaign development and what can be billed as ad production, the City is left to the goodwill of the Consultant and subcontractor.

Cause: Contract structure and oversight.

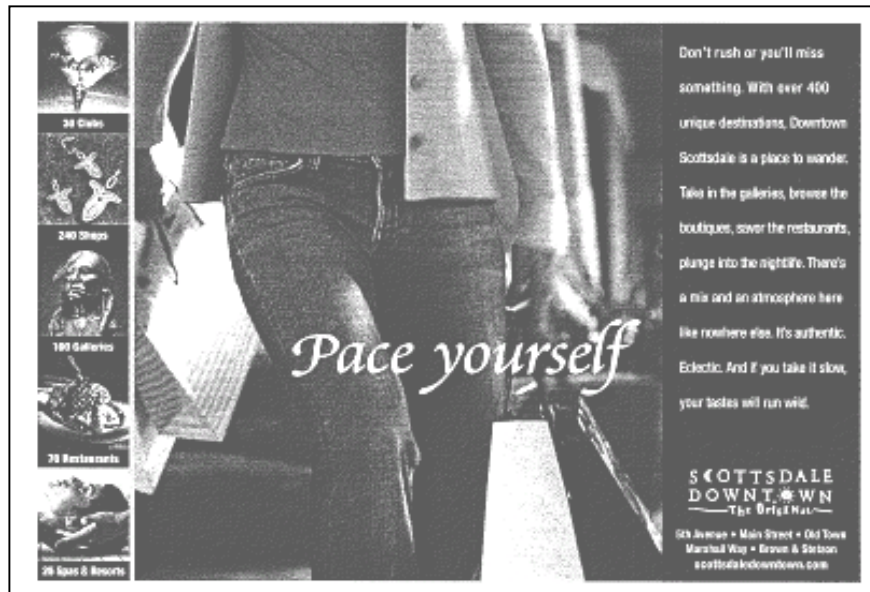
Effect:

1. Assessments not billed because the parcel numbers did not agree with Assessor records and errors in the spreadsheets that reduced the amount of the total assessment. In FY 03/04, one error alone resulted in the City receiving almost \$4,000 less. When the error was discovered, the difference was prorated to all property owners within the boundary and there was no chargeback to the Engineer to make the City whole.
2. Failure to demonstrate adequate fiduciary care in monitoring the performance of the Consultant and expenditures made from public funds. The Contract Administrator did not require a written memo of understanding setting out the deliverables or the fee structure, invoices were paid without appropriate supporting documentation, and the arrangement between the Consultant and the subcontractor was not documented to control costs passed on to the City.

More importantly, though, there is nothing set out to distinguish between what was billed under one project classification and another. For example,

¹² Staff reported that volunteers staffing the booth used the tickets provided as part of the sponsorship package but there is no documentation of this.

the picture below shows the ad placed in the P.F. Chang's Rock 'n' Roll Marathon Program.



In October 2004, the Consultant billed almost \$13,500 under the creative campaign development project. This was the same month that this ad concept, text, and copy was completed and approved. In November, the Consultant billed almost \$1,200 and listed it as advertising production for the Rock 'n' Roll Marathon ad. Because the Consultant was not required to document the creative campaign project scope or submit sufficient documentation, it is unclear as to whether or not the City was billed twice for the same work.

Moreover, this same creative concept (shown to the right as the ad in the programs for the Fiesta and Insight Bowl) was used at least eight times and billed to the City each additional time without explanation of the scope of service, the amount of time spent, or the staff completing the work.



3. Payment for services contractually specified to be provided as a condition of receiving the monthly retainer. One such service was account management. In all, the cost to the City for the services provided by the Consultant were inflated more than \$12,000 for charges submitted by the sub-contractor and listed under the categories such as account management and account coordination. These charges were not picked up and questioned by the Contract Administrator because the Consultant was not required to submit detailed invoices to substantiate the billings from the subcontractor.
4. The failure to document billing arrangements and approve estimated costs hinders the ability for the City to question the appropriateness of invoices submitted for payment. For example, the Consultant requested Commission approval of contingency funds for marketing opportunities associated with the Rock 'n' Roll Marathon. One of the budget lines incorporated into the request was an allocation of \$2,500 for design of the booth to be used at the Health & Fitness Expo (held in Phoenix as part of the Rock 'n' Roll Marathon), handouts, and items to be put in the goodie bag handed out to runners and volunteers. Ultimately, though, the design of the booth and handouts at the Expo was left to the purview of the Working Group. At the conclusion of the project, a merchant in the Downtown area submitted a \$3,500 invoice to the Consultant for design of the banner, set up and take down of the display, and time to staff the booth. There was no discussion at the Commission or the Working Group of this arrangement, the appropriateness of paying anything other than direct production costs or the fact that individuals would be paid to staff the booth. Ultimately, even though the budget was \$2,500, costs for the booth and goodie bag inserts ballooned to \$7,200 without any discussion at either the Working Group or Commission of the increase.

Another example is the banner for display in conjunction with the San Francisco Giants' Spring Training. The Commission initially discussed using the existing banner to save costs but a decision was reached somewhere along the line that a new concept was needed. The Consultant, however, was not required to provide an estimate of what it would cost to develop new proposals before making a decision to move forward with a new banner. Ultimately, the City was charged almost \$1,000 for time and production costs to replace a banner acquired the year before.

Objective 5: Determine if there are any other issues related to the scope of this audit that need to be addressed.

Finding: Program expenditures will exceed the estimate provided to affected property owners when the FY 04/05 assessment was set. The professional services contract for marketing will exceed the amount approved by Council when the 2004 contract was awarded.

Criteria: Annual statements and estimates of the expenses is a requirement under state law. Statutory provisions require a public hearing with notice published in the newspaper as well as mailed to each property owner within the boundary. City Code requires the EMSD Commission to recommend a budget for marketing and special events. Code also limits the role of the Commission. According to the purpose statement, it is to act as an advisory body to City Council on matters concerning the expenditure of revenues from assessments collected within the boundaries of the District.

Condition: Property owners, interested parties, and City Council were told that actions taken at the June 22, 2004, Council meeting would authorize a budget for the Promotional Program. In this public disclosure process, constituents and policy makers based their actions on the belief that an assessment of approximately \$520,000 was needed to carry out the Program's scope of work. However, there was a significant carryover that should have been included in the discussion. The following is a brief recap of actions taken:

- In May 2004, Council made the annual statement for the upcoming assessment. Notice was provided to property owners and published in the newspaper with expenditures estimated at \$520,000. The Notice also stated that Mayor and Council would adopt the District budget for 2004/2005 at the meeting to be held in June for objections.
- The Commission considered an annual budget and voted at the June 19, 2004, meeting to recommend a budget of \$519,900 to the Council.
- The agenda for the June 22, 2004, Council meeting for the assessment set out that the action to be taken would establish a budget for the District. Correspondingly, the Council Action Report (CAR) stated that the request before the Council was to 1) establish \$519,900 as the amount to be raised from assessments and 2) establish a fiscal year budget for the District in the amount of \$519,900. As well, the CAR included a statement to the effect that District expenses would not be greater than the District budget approved by Council. At the conclusion of the hearing, Council adopted Resolution #6506 setting a budget for the Program at \$517,203. Specific language included in the resolution is set out on the following page.

Whereas, the City now desires to adopt a budget of \$517,203 for Fiscal Year 2004-2005 that provides for annual funding of enhanced municipal services in City of Scottsdale Downtown Enhanced Municipal Services District No. 2 and to levy the assessments in respect thereof;...

That the proposed budget for the City of Scottsdale Downtown Enhanced Municipal Services District No. 2 for Fiscal Year 2004-2005 in the form presented to the Council is hereby adopted in the total amount of \$517,203.

SOURCE: Council Resolution #6506 dated June 22, 2004, on file with the City Clerk.

- At the July 7, 2004, meeting, Council awarded a professional services contract in the amount of \$500,000 for marketing and promotion.

Subsequent to the presentation of the estimate of expenditures to Council and property owners and the action to award a contract for the services, staff presented a request to the Commission to increase the budget. At the end of the discussion the following action was taken:

Commissioner Atkinson made a motion to increase the FY 05 budget by \$115,900 and be allocated into three categories:

1. *Reserve*
2. *Area Grants*
3. *Overall EMSD needs*

SOURCE: Approved minutes of the EMSD Commission meeting on October 20, 2004.

After the approval of the Commission, staff processed documentation to increase the amount payable under the professional services contract.

Cause: Internal discussions apparently led to a conclusion that it was not necessary to go back to Council and request authorization to increase the budget. This decision was based on two factors:

1. When the proposed citywide budget for FY 04/05 was presented to Council for approval, \$670,000 was inserted into the Trust Fund as the estimate of expenditures for the Downtown Promotional Program. The amount was not reduced when Council took action in June to approve a final budget for the Program.
2. Instruction, by Financial Services staff, to staff overseeing the Promotional Program that it was unnecessary to seek Council approval to spend the carryover funds because Council had already approved the expenditure when action was taken to set the assessment in prior years.

Actions were facilitated by current Procurement Rules that allow a professional services contract, approved by Council, to be increased after the fact without

taking the request back to Council. City Code, §2-200, differentiates between actions that effectively change the scope of work (change order) but do not modify contractual terms (contract modification). As such, professional services contracts initially awarded by Council with a set amount of compensation can be changed to increase or decrease the amount to be paid as long as the appropriate contract language is incorporated. As a result, even though a contract may include a provision that states that any amendment, modification, or variation in the terms of the contract would only be effective after approval of all parties signing the original contract, changes to the scope of work or the compensation to be paid can be processed without being considered an amendment, modification, or variation in terms.

Effect: Council approved an assessment of \$517,203 based on consideration of a proposed budget submitted by staff. In reality, though, the scope of work proposed at the June 2004 Council meeting could have been carried out with an assessment of a little over \$400,000. Failure to inform Council of the potential for a carryover prior to the decision on the amount to assess meant that Council did not have all the information needed to make an informed decision.

Assessment notices were also sent to the property owners setting out that almost \$520,000 was needed for the next fiscal year Program. Failure to adequately publicize the fact that there would be a significant amount of prior year funds remaining to be spent prior to the hearing on estimated expenditures kept relevant information from interested parties that could have been used to argue that the assessment did not need to be as high as proposed.

Allowing the Commission the latitude to increase a program budget that had been set by Council was a violation of the spirit of City Code. By restricting the discussion to a Commission meeting, public notice of the amount available and proposed use was limited.

Last but not least, there is a question as to how much the Council authorized to be spent for the Program. City Charter requires the Council to adopt estimates of proposed expenditures at the first regular meeting in June. Section 5 of Article 6, however, provides that the Council may decrease the items of the budget at a later date. Did the action on the 22nd of June limit the amount of assessment funds that could be spend on the 2004 Program or did the approval of the citywide budget provide the latitude to spend more than what was presented to the Council as the proposed Program?

Finding: A final accounting for program expenditures, assessments collected, and City contributions should be provided to property owners and interested parties when the Promotional Program is deemed complete.

Criteria: The assessments for the Program are set prior to the actual completion of the program of work. Revenues raised as a result of the assessment are restricted and can only be used for the purpose set out when the work was performed.

For work completed using the improvement district funding mechanism, state statute requires a public hearing when work is deemed complete. State statute, §48-590 F, further states that if an assessment is dated before the work is complete, a recapitulated assessment based on the actual costs is to be filed with the city clerk together with the known incidental expenses expended to date and estimated expenses remaining to be expended at or prior to the hearing. This process provides a means for the property owners to weigh in on whether or not the work was completed according to the contract as well as providing assurance that the amount collected was needed to pay costs related to the project.

Condition: A recapitulation of assessments and expenditures was not completed for the first five-year work program funded with District assessments.

For the work program currently underway, annual statements of revenues collected and expenditures made for program delivery have not been prepared and presented as a means of recapitulating the assessment against expenditures. Under current practice, the Program is treated as an ongoing program with assessments treated as revenue to pay for current year expenses regardless of the program year under which the assessment was actually set. As a result, while the revenue is tracked as restricted funds, expenditures for a particular year are never matched against revenue generated for that particular assessment set.

While year-to-date financial information may be available from the City's Financial Services Department, the format is not presented in a fashion that would facilitate a review of work completed, the cost to complete the work (inclusive of incidental expenses), and the source of funds used to pay for the work. As a result, an interested party would not have access to easy to understand information about the Program.

Expenditures are handled through a professional services contract so the trial balance reflects the lump sum payments without detail of specific use. As a result, interested parties would need to sift through various sources such as fee schedules set in contracts, discussions at the EMSD Commission regarding project budgets, and supporting details for invoices to gain insight into the use of funds.

Cause: Question as to whether or not the work program is an annual undertaking or an on-going effort that is only complete when concluded.

Effect: Property owners paying the assessment during the first five years have not received a final accounting of the use of funds.

Property owners and other interested parties have not been provided information regarding source and use of funds on an annual basis for inclusion in the deliberations of the amount needed for ongoing program delivery.

Finding: Updated diagrams were not filed with the City Clerk and submitted to Council for approval prior to making the FY 03/04 and FY 04/05 assessments.

Criteria: A diagram of property within the EMSD boundary should be available for each assessment year.

Condition: For the current EMSD, one diagram was made and filed with the City Clerk in April 2002 and language in the resolution of intention set out that it was approved. From that point forward, no other diagram was prepared or presented for Council approval. Instead, the Engineer provided a database of lots by assessment number. The database incorporated the information required in statute but there was no way to verify that all lots within the boundary were assigned an assessment number.

Cause: Unknown.

Effect: Impacted property owners did not have access to information that would allow a review of the process used to assign assessment numbers to the lots within the EMSD boundary.

Finding: There was no requirement for a long-range plan for marketing, promoting, and advertising Downtown Scottsdale.

Criteria: To ensure that an expenditure reflects the actual need, program budgets should be "zero based" and re-evaluated each year in context of current needs and long-term strategic plans.

Condition: When Council elected to order the enhanced services, the Program was set as a five-year program. A general work plan was outlined but never fleshed out to a strategic five-year plan that could be used to project needed expenditures or activities. Instead, program delivery was designed around a methodology where the amount of funding drove the scope of services.

Cause: The work was viewed as an on-going program without a process at the end of a program year to review the promotional efforts and the cost incurred during that year for comparison to the amount to be assessed the following year.

Effect: Activities were structured to spend the money raised by the assessment and City contributions without consideration of whether or not the entire amount was needed or if certain years should receive a higher level of funding to take advantage of unique events or circumstances.

Finding: Practices do not provide reasonable assurance that positive financial control was exercised when expenditures were made under the auspices of the Promotional Program.

Criteria: The City has a fiduciary responsibility to exercise positive financial control over purchases made with public funds. To provide a framework for these decisions, the City Charter requires that the City Council, by ordinance, set out conditions and procedures that shall apply when formal bidding is required, when informal bidding is required and when no bidding is required. These conditions and procedures were set out in the City's Procurement Code.

- Informal
 - Solicit pricing from one or more vendor's as determined to be the most advantageous under the circumstances.
 - If over \$5,000 but under \$10,000, request three bidders to submit either verbal or written quotes.

- If over \$10,000 but under \$20,000, request written quotations from at least three vendors with responses documented using a "Request for Quotation" form. Quote file must be created.
- Formal
 - Invitation for Bid – sealed bids open in public.
 - Request for Proposal – sealed and open in public.

Condition: The process used to solicit Consultant services for the FY 04/05 Program year followed Procurement Code rules and procedures for acquiring professional services. A Request for Proposal (RFP) was prepared and distributed seeking a consultant to provide marketing services for the EMSD. The scope of work incorporated into the RFP matches what is reflected in the current contract (see page 19 of this report for the scope of work in the contract).

According to definitions listed in the City's Procurement Code, the term "professional services" is used to describe those services requiring special knowledge, education, or skill and where the qualifications of persons rendering the services are of primary importance. Many of the services listed under the scope of work in the RFP meet this definition. However, when it came time to award the Contract for services, the amount awarded was not limited to the cost of the professional services (approximately \$140,000 based on the winning proposal). Instead, the entire amount estimated to be available from the upcoming assessment was used as the upper limit that would be paid to the Consultant. With this treatment, direct expenses, other projects not scoped out prior to contract award, and monies that would be made available for area grants could be processed through the Consultant outside of customary City processes. As a result, the procurement of materials (such as printing), normally monitored by the Purchasing Division and subject to the City's Procurement Code, was left to the discretion of the Consultant and oversight by the Contract Administrator.

If the work was to be completed for a fixed fee using in-house resources and clearly defined deliverables, developing a Contract based on the entire amount available would not carry a high risk because the Consultant assumes the financial risk. This was not the case, however. First, the scope of work was not sufficiently detailed at the time the RFP was prepared to allow the award to be made as a fixed fee. Parties interested in submitting a proposal did not have sufficient detail to determine how to bid costs associated with media buys, printing, or other direct costs. This is clearly demonstrated in the questions submitted for clarification. For example, when interested consultants asked questions such as "How many publications does the City envision developing and what's the quantity" and "How much advertising is

expected and what type, e.g., outdoor, billboard, radio, TV" in an effort to determine what was expected in a proposal, the response given was that this information would be determined when the marketing plan was developed after the consultant was on board. It is also clear that there was no evaluation of the costs assigned to direct services such as printing because evaluation criteria focused on elements such as local knowledge, project team, the consulting fee, and other professional skills.

To address that a significant amount of the Contract would be allocated to other expenditures, the fee schedule set out a guaranteed monthly payment for basic consulting (\$90,000 annualized) and left the rest (\$410,000) to be expended based on Contract Administrator approval of projects. Appropriate contractual provisions, setting out the requirement to follow public procurement rules when acting as the representative for the City, were not incorporated into the Contract to place the Consultant on notice of the responsibility to ensure that purchases were in the best interest of the City. While staff may believe that the expectation was clearly communicated to the current Consultant, this does not appear to be the case.

One project completed in the last fiscal year under the direction of the Consultant was the re-design of the Map and Directory (Map) and printing 200,000 copies. A project budget of \$56,000 was presented to the Commission with a statement that costs may be lower because the actual printing would be sent out to bid. The ultimate cost would then be the cost of printing plus a mark up to cover the cost of creative efforts to re-design the Map. Even with the discussion regarding the cost and uncertainty as to the value of the potential mark up, the Consultant was not required to provide a clear picture of billing structure for the project.

Ultimately, the Consultant did not put the print job out to bid. Documentation provided as support for the process consisted of:

1. A "quote" from the printer that completed the work. This "quote," however, was dated the day after the invoice for the actual work.
2. One estimate dated four months before the Map was finalized. This estimate was actually prepared at the request of a merchant in the Downtown area and not the Consultant.
3. One estimate dated a month before the date of the invoice submitted as proof of costs.

Under the City's Procurement Code, an expenditure of this level would have required a formal request. Vendors would have been provided the same specifications and defined expectations at the same point in time. Bids would

have been opened in a controlled environment to avoid the perception of favoritism. This did not occur with this expenditure.

Moreover, the amount charged to the Promotional Program was not the reflection of the cost paid for printing and any standard "mark up." It was simply the amount set as the budget, as if Commission approval was an implicit agreement to a fixed fee. The following is a recap of what was charged:

1. \$878.75 billed by the Consultant in August for "coordination of Map and Directory update."
2. \$44,817.82 billed in September by the Consultant as a pass through expenditure from the subcontractor. This amount was arrived at by taking \$31,892 in costs paid to a third party for printing and adding \$9,567.60 (30 percent) as the "mark up." Then, sales tax, based on the total charge, was added. By taxing the entire amount, the cost to the Program was increased almost \$775 because the professional services, provided by the subcontractor (i.e., the mark up), should not have been included when the tax was calculated.
3. \$10,303.43 billed in October as "Map and Directory - coordination, copywriting, and project management."

When the Consultant presented the ancillary charges, no record of staff assigned and time charged was included as a means of evaluating the amount. As a result, it is easy to reach a conclusion that it is not a coincidence that the amount billed equals the amount approved as the budget.

A similar issue exists with allowing the funding for area grants to be wrapped into the Consultant Contract. The amount that would be available was not determined at the time the Contract was developed so there was no public disclosure of the allocation. Ultimately a little over 40 percent of funds remaining after the Consultant fees were subtracted were allocated for this use. To look at the control over these expenditures we reviewed Commission minutes, the grant application, and individual requests processed for payment. While City staff provided information on the need for proper control of expenditures at a Commission meeting in August 2004, the "area grant" distribution process was not structured in a manner sufficient to provide assurance that positive financial control was exercised when services were obtained. Payments to merchants and/or employees of merchants were not prohibited or, at a minimum, subject to an additional level of review to ensure that the transaction would stand up to public scrutiny. Merchant associations were not required to provide documentation or other support to outline the steps taken to determine that the cost passed on to the Promotional Program was reasonable. Documentation, such as the grant application and the form

used to request payment or reimbursement, did not set out the requirements for adhering to procurement procedures. Finally, there was no requirement for a merchant association representative to sign the request for payment/reimbursement with a certification statement to the effect that the expenditure adhered to procurement rules. Moreover, the City advanced money to the Consultant based on cash flow projections and did not adequately monitor this process to avoid a large build up of unspent advances. At the time of our work, the Consultant was holding almost \$40,000 in the checking account used for payment of area grants.

Cause: Lack of oversight coupled with the Commission perspective that the area grant process should not be overly burdensome. Last, but not least, poorly crafted contracts combined with belief of staff that budget amounts were the agreed upon amount for the service rendered.

Effect: Public monies have been expended without appropriate oversight to ensure compliance with public procurement laws. As a result, expenditures such as the following were paid without providing copies of contractual arrangements for professional services, inadequate evidence of solicitation of prices from more than one vendor as a means of demonstrating advantageous pricing, or sufficient detail setting out the scope of services provided for the amount billed:

- Two specialty contractors were paid more than \$12,000 each for services that, if obtained through normal City procedures, would have required the development of a professional services contract. Instead, payments were made based on vendor invoices submitted under the "area grant" process. No oversight body (Commission, Contract Administrator, or Consultant) required the merchant association to present a contract setting out the terms of participation, rate of pay, services to be provided, or indemnification clauses prior to authorizing use of funds for these activities.
- More than \$20,000 for services provided by a vendor obtained by the Scottsdale Gallery Association for "promotional support and website updates." Payments were processed with no detail as to the services to be provided.
- Almost \$2,700 was paid to an individual associated with a business in Downtown for ad writing, banner design, and banner installation.
- A little more than \$2,300 was paid to a firm handling promotion work for one of the Marshall Way galleries. The invoice stated that the services consisted of photography and design of a full-page ad but no supporting documentation was submitted to set out the steps taken to ensure that this pricing arrangement was the most advantageous given the circumstances.

Finding: City Code was not followed when setting up the working structure of the EMSD Commission.

Criteria: City Code, Section 2-294 through 2-296.

Condition: City Code sets out that the EMSD Commission could appoint committees for the purpose of marketing, promotions, and special events. The number of appointees was specifically limited to five members per committee. Appointments were to occur from applications submitted to the City Clerk.

At the February 18, 2004, Commission meeting, an item was agendized for the appointment of members to the Marketing Subcommittee. Instead of limiting the appointments as required by City Code, the Commission appointed all applicants.

Cause: Desire to be inclusive.

Effect: While the Consultant was required to develop a strategy for marketing and advertising with input from the EMSD Commission, the Consultant had to work with the Marketing Working Group.

The Marketing Group are the doers and work with the marketing consultants on day to day decisions.

SOURCE: Commission minutes dated July 21, 2004.

As a result, the Consultant not only had to solicit input from the Commission but also work with the Working Group to gain consensus on ad layout, media placements, marketing plan development, etc.

Finding: Meetings of the "Working Group" were not posted.

Criteria: State law requires public notice of all meetings of public bodies. The definition of public body is:

Public body means the legislature, all boards and commissions of this state or political subdivisions. All multimember governing bodies of departments, agencies, institutions and instrumentalities of the state or political subdivisions, including without limitation all corporations and other instrumentalities whose boards of directors are appointed or elected by the state or political subdivision. Public body includes all quasi-judicial bodies and all standing, special or advisory committees or sub-committees of, or appointed by, such public body.

The Working Group meets the definition of a public body because it was appointed by another public body. Open meeting law also applies because

the Working Group fulfilled an advisory role to the Commission and directed work of the Consultant.

Condition: Meetings were not posted. According to staff, agendas were prepared and notes taken but minutes were not kept.¹³

Cause: Misunderstanding of the requirements.

Effect: Failure to post time and place of meetings and the proposed actions precludes public observation of the discussions held at meetings.

¹³ Under state law, there is no requirement to take minutes at Committee meetings. We could not find a City policy or other directive that covered the City's policy on record retention for Commission appointed committees.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objectives of this audit were to:

- Verify that the assessment methodology follows the parameters approved by Council when the work was ordered.
- Verify that funds raised as a result of the assessment are used in a manner that provides assurance that the goals of the program will be achieved.
- Verify that statutory requirements have been followed.
- Verify that controls are in place to ensure performance under any contracts entered into as part of the program of work or necessary for the ongoing assessment.
- Determine if there are any other issues, related to the scope of the audit, that need to be addressed.

The scope of the audit was limited to the marketing, advertising, and promotional programs to be provided through the enhanced municipal services district mechanism known as EMSD. Verification of the assessment to be collected was limited to FY 04/05 and the proposed rates for FY 05/06. Testing of expenditures was limited to the current fiscal year due to the change in Consultants in July 2004.

To complete the work, we read ARS, Article 2 of Title 48, Chapter 4, and the accompanying historical and statutory notes. Development of criteria used for statutory compliance was completed with the assistance of staff in the Office of the City Attorney.

We also obtained copies of Council Action Reports, resolutions, and ordinances dealing with both EMSDs. We interviewed staff in the Downtown Group, the City Attorney's Office, and Financial Services. We spoke with the firm designated as the Engineer for the EMSD and a representative from the County Treasurer's Office. We reconciled the 2004 assessment list prepared by the Engineer to the records at the County Treasurer's Office for assessments made. We tied receipts recorded on the City's records to remittance records from the Treasurer's Office and recalculated the amount received for FYs 02/03, 03/04, and 04/05 to the total assessment for those years. We also attempted to reconcile the amount set by Council to the amount assessed but could not complete the test because differences could not be explained.

We obtained copies of the requests for proposal used to solicit services for District updates in FYs 04/05 and 05/06 and the contract and timeline for the update for FY 05/06. To verify the work, we obtained the list of proposed

assessments for FYs 02/03, 03/04, 04/05, and 05/06 and reviewed the assessment categories, land use, and square footage. We compared assessments from prior years to the proposed assessment for FY 05/06 to identify variances and looked up parcel numbers on the County website to verify square footage and parcel number. We conducted a field test by selecting a random sample of parcels and then visually inspecting the parcel and land use.

As well, we obtained the request used to solicit the services of a Consultant for FY 04/05 and the contract and reviewed the documents to identify performance measures, terms and conditions, and requirements for service delivery. We reviewed the Marketing Plans for FY 03/04 and FY 04/05 and the mid-year report prepared in January 2005 for the current year. We obtained documentation of payments made during this fiscal year to the current Consultant and scheduled out the distributions. We reconciled the funds advanced for area grants to the checking account balance and we reviewed documentation for evidence that appropriate procurement rules were followed when the Consultant purchased services and when specialty districts submitted expenses for payment from area grants. We reviewed media placements, ad copy used for those placements, and websites for information on the activities sponsored and vendors used for service delivery. We surveyed map kiosks in the Downtown area and information displays in surrounding hotels to identify the types of publications set out for distribution on Downtown and made inquiries to staff on the level of oversight for contracts such as "City View" to determine if there is appropriate follow up when services are arranged and paid for in advance.

We also obtained documentation for payments for the previous year and scheduled distribution to gain insight into the type of expenses incurred for comparison with current year expenditures.

We obtained Commission agendas and the related minutes. We reviewed the agendas and documentation looking for discussion of results and performance measures. We compared actions taken by the Commission to the role set out in City Code. We inquired about the posting of agendas and minutes for the Working Group and were told that the meetings are not posted and minutes are not taken. Staff did report, however, that notes are taken.

We inquired about the non-profit status of merchant associations participating in the area grant process, conducted Internet searches for companies submitting invoices for services provided, and reviewed reports available from the Arizona Corporation Commission.

Finally, we obtained copies of FYs 04/05 and 05/06 proposed citywide budget and reviewed the presentation of proposed expenditures for the Promotional Program and the objectives for the Downtown Group.

Findings Discussed With Management but not Included in This Report




During this audit, we discussed findings with management that are not included in this report:

1. Past practice was to send the notice of proposed assessment using the prior year assessment rate instead of including the 2.5 percent annual increase approved in 2002. By sending out the notice with the old rate, staff presumed that Council would elect not to assess at the higher rate instead of setting out both options and then letting Council make a decision based on the amount needed for the level of work desired.
2. Past practice was to reflect assessment revenue and expenditures within the Trust Fund when preparing the citywide budget. This classification does not properly reflect the nature of the revenue generated.
3. Area grants were to be restricted to merchant associations or business owner groups operating as (or with the intention of) a non-profit. While efforts were made to verify the status of groups requesting funds, the process was such that grant money was used to support events produced by entities not meeting this eligibility restriction.

Staff Assigned and Project Schedule

Audit work was initiated the middle of April 2005 and concluded in May. Cheryl Barcala, Gail Crawford, and Ramon Ramirez completed the assignment. Resolution of audit issues continued through the end of June. Work was conducted in accordance with generally accepted auditing standards as they relate to expanded scope auditing in a local government environment and as required by Article III, Scottsdale Revised Code, Section 2-117, *et seq.*

APPENDIX A – MANAGEMENT RESPONSE

TO: City Auditor
FROM: Ed Gawf, Deputy City Manager 
John Little, Downtown Executive Director 
Craig Clifford, Chief Financial Officer 
DATE: August 29, 2005
SUBJECT: EMSD Internal Audit – Management Response

We appreciate the Auditor's responsiveness to our request that this audit move to the top of the Auditor's prioritized audit work plan for 2005. City staff anticipated the council would be considering another year of assessments to fund downtown Promotional Programs and was interested in learning of any substantive issues to address for the future.

Management is pleased the audit found compliance with the four stated audit objectives:

1. Assessment Methodology was followed;
2. Funds were used to promote downtown;
3. Statutory requirements were followed; and,
4. Controls have been in place, but could be strengthened if this program is ever reinstated by the City Council.

A few points in the Auditor's Executive Summary require clarification:

1. The auditor concludes that while funds raised from the 2004 assessment were appropriately applied to achieve the general work program set out in 2002, "results cannot be demonstrated". The summary also concludes that no trend data exists to indicate brand recognition improvements. The auditor further observes correctly that there was a shift in the specialty district brand recognition to allocate significantly more money to area grants and that the impact of these changes was not addressed using customer surveys or other methods to determine results.

It should be noted that the EMSD Commission, entirely and separately, not city staff, implemented these changes in public meetings. The Commission recommended and voted for an increase in area grants and the Commission chose not to allocate funds, or develop strategies for program evaluation. City staff reminded the Commission in at least two public meetings the importance of program evaluation and even recommended that the Commission request quarterly updates on results from the area merchant and gallery associations. Staff further designed and distributed program evaluation forms to be filled out by grantees. No evaluation was ever turned in to the Commission by the grantees.

2. The City Auditor also notes in this section that the Auditor's office does not "believe" full disclosure to the City Council and interested stakeholders occurred relative to the city's budget process.

The annual adopted city budget sets a maximum legal spending authority as full disclosure of possible expenditures for city programs within expected resource limits. Multi-year financial resource planning considers many factors to ensure the fiscal

integrity and sustainability of programs. One of the factors considered is cashflow, which is not always the same as adopted budget or actual expenditure amounts.

The City Budget (Trust Fund Summary – see Budget, Volume 1, page 56) adopted 6/8/04 by the City Council presented the 'estimated' carryover cash balance of \$45,320 at 6/30/04 for the EMSD along with an estimate for maximum expenditure budget authority of \$670,000. Subsequently, Downtown staff brought forward an action on 6/22/04 to levy the taxes for the district for less than the maximum expenditure - taking into account estimated cashflow needed to carryout the Program's scope of work. Conservative cashflow considerations include: anticipated actual program contractual expenditures, available cash carryover, current assessment, and estimates of prior year delinquency collections. EMSD actual expenditures for FY04/05 remain within the 6/8/04 adopted city budget and the underlying aggregate cashflow.

The City Attorney's office confirms that the spending authority for the downtown marketing program is set through the city's normal budgeting process. One source of funding for that program is the enhanced municipal services district. When the City Council approves its annual enhanced municipal services district assessment resolution, it is not changing the city budget. Instead, the City Council is exercising its power to make enhanced municipal services district assessments for that year and deciding how much money to raise through tax assessments. That process does not amend the city budget, which continues in effect as previously approved by the City Council.

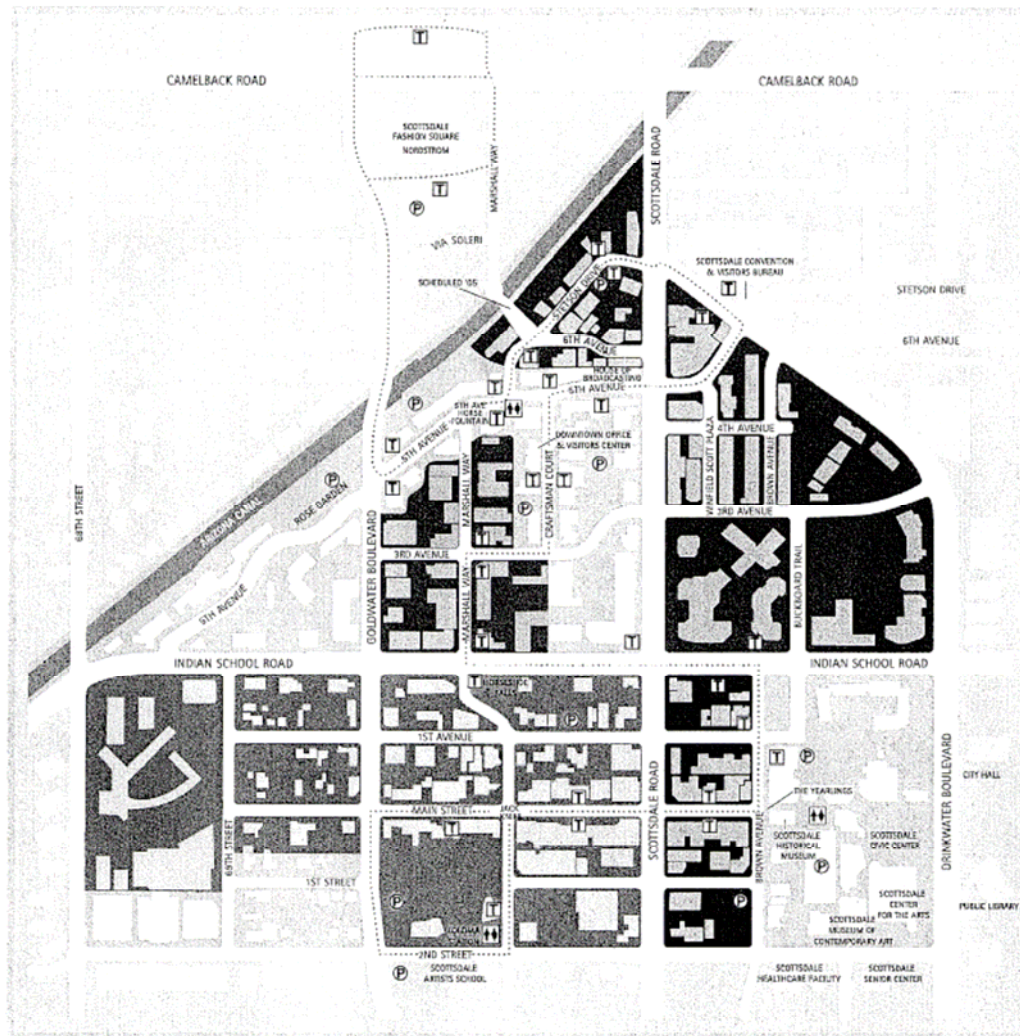
Lastly the Auditor's Executive Summary highlights four findings that“need to be weighed by the Council.”

1. Status of the EMSD Commission—This is a policy decision for the City Council.
2. City Code and the Creation of the Downtown Group---Creation of a Downtown Team was discussed with City Council as part of the 10/13/03 Council Action establishing the EMSD Commission.
3. Future Funding for Specialty Districts—This is a future City Council policy issue.
4. EMSD Assessment Methodology—These recommendations require City Council action should the district be reinstituted.

We appreciate the auditor's acknowledgment of staff's responsiveness to items identified during the course of your work that we were able to immediately implement before issuance of a final audit report. We agree with many of the recommendations of the City Auditor (see attachment) and will work closely with that office to implement all recommendations that might result from a City Council decision to reinstitute the EMSD assessment.

Attachment: Audit Recommendations/Action Plan Management Responses

EXHIBIT A –2004 AMBASSADOR'S MAP OF DOWNTOWN DISTRICTS



T TROLLEY STOP

FREE TROLLEY ROUTE

Public Restrooms

P PARKING

BROWN & STETSON BUSINESSES

5TH AVENUE SHOPS & BOUTIQUES

MAIN STREET ARTS & ANTIQUES DISTRICT

MARSHALL WAY ARTS DISTRICT

OLD TOWN SCOTTSDALE



SCOTTSDALE
DOWNTOWN
The Original

EXHIBIT B –MAP OF SPECIAL DISTRICT'S DOWNTOWN PLAN

FIGURE 6.1 SPECIAL DISTRICTS TYPE 1 AREAS AS DESIGNATED IN THE
DOWNTOWN PLAN URBAN DESIGN AND ARCHITECTURAL GUIDELINES MAP
OF SPECIAL DISTRICTS

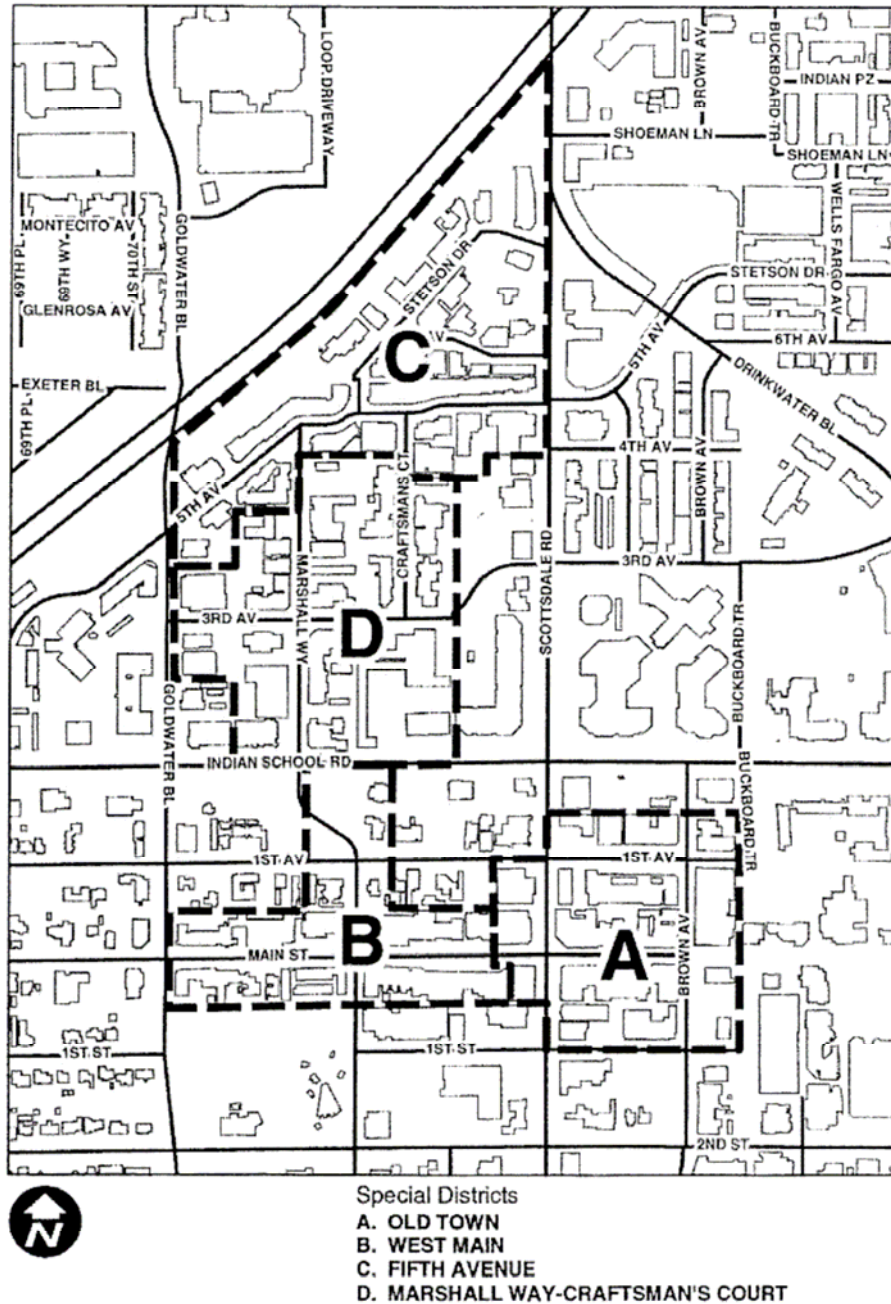


EXHIBIT C – PLANS AND SPECIFICATIONS

DOWNTOWN EMSD

OFFICE OF THE
CITY CLERK

2002 APR 29 PM 4:34

Activities to be Provided by the District Funding Through Property Taxes Collected for 5-Year Period (2002-2006)

The following list of goals and activities outlines a general work program for the provision of marketing, advertising and promotional programs funded through the enhanced municipal services district mechanism.

GOALS

I. Marketing and Promotion

- A. Provide marketing and advertising opportunities for all segments of the Downtown, geared toward local and regional markets.
- B. Produce special events to attract repeat visitors and customers to Downtown which may include:
 - i. ArtFest on 5th Avenue
 - ii. Art Walk
 - iii. Summer Spectacular Art Walk
 - iv. Street Art Live
 - v. Market in the Village - Farmers Market
 - vi. Chicago Fest
 - vii. Western Art Weekend
 - viii. Western Heritage Week
 - ix. Pancakes Del Sol
 - x. Parada Del Sol Trail's End Party
- C. Promote activities that support the overall Downtown vision while recognizing the uniqueness of the individual area within the Downtown.
- D. Continue an image program that includes logo and theme colors with an implementation plan detailing the usage of Downtown logo on signs, banners, uniforms, shopping bags, etc.
- E. Continue various publications and brochures such as Downtown Map, Directory, restaurant guide, additional supplements, web site, and newsletter.
- F. Develop and continue strong public and media relationships through cooperative advertising and other leverage opportunities.

- I. Promote Scottsdale Downtown at international tourism trade shows

II. Goodwill

- A. Continue goodwill ambassador program.
- B. Recruit, train, supervise and evaluate volunteer “goodwill ambassadors”.

III. General Administration and Coordination to Enhance Downtown

- A. Communicate marketing and promotional activities of the Enhanced Services District to the various Downtown merchant and property owner associations, the City of Scottsdale, Chamber of Commerce, the Convention and Visitor’s Bureau, and the Scottsdale Cultural Council.
- B. Work with EMSD area business and property owners on Downtown issues
- C. Collect various types of data and conduct research, including a comprehensive market analysis and annual customer surveys.

EXHIBIT D – ASSESSMENT DISTRICT MAP

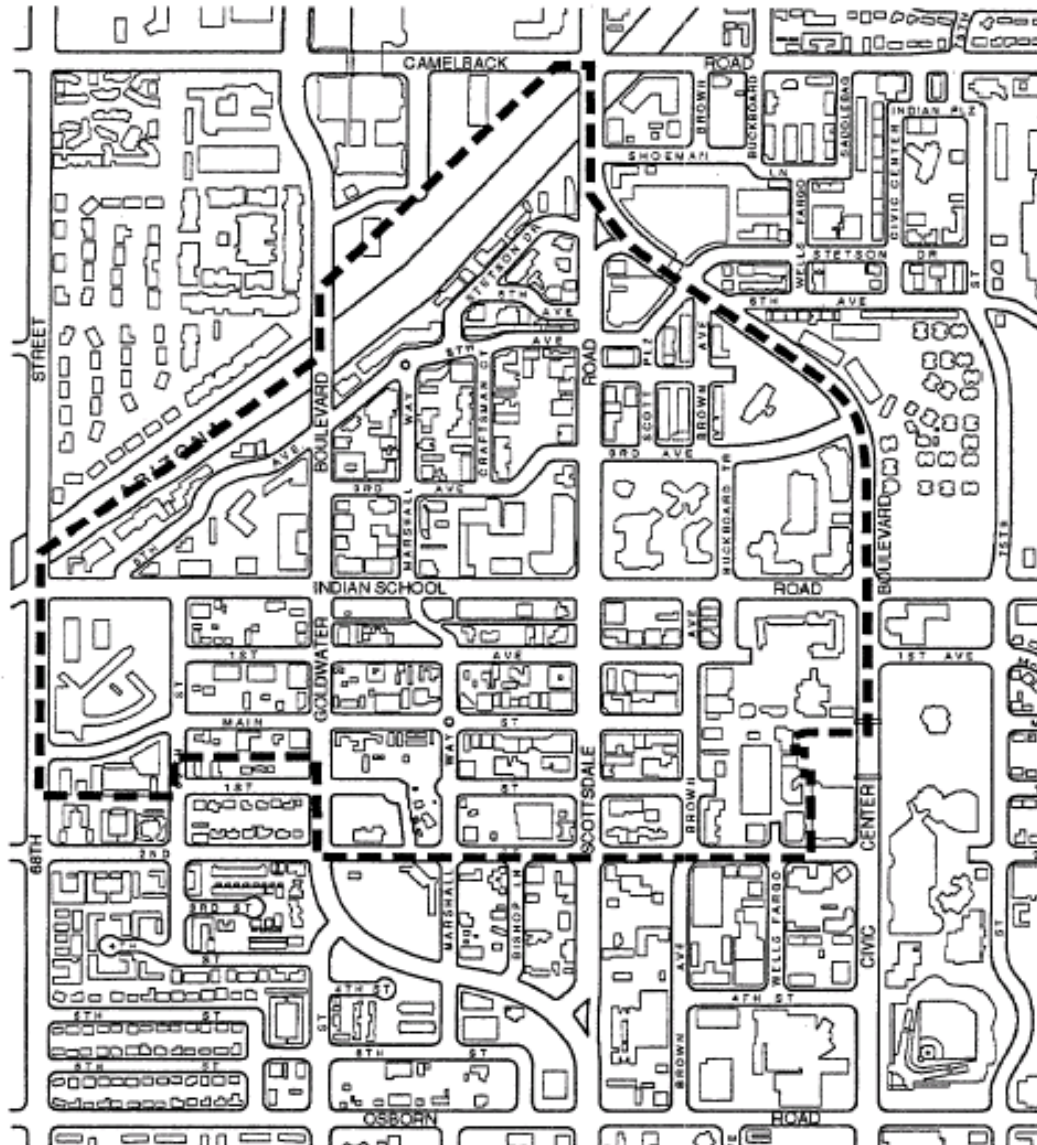


EXHIBIT E – COUNCIL ACTION REPORT

CITY COUNCIL REPORT



MEETING DATE: 06/22/2004 ITEM NO. 18 GOAL: Short- and Long-term Economic Prosperity

SUBJECT

Annual review and update of Downtown Enhanced Municipal Services District No. 2. (EMSD)

REQUEST

Adopt Resolution No. 6506 (Attachment A) to accomplish the following:

1. Reject any objections received to the legality of the assessments for Fiscal Year 2004-2005 for the Downtown Enhanced Municipal Services District No. 2 as insufficient and without merit.
2. Establish \$519,900 as the amount of funds to be raised for District projects through assessments for Fiscal Year 2004-2005.
3. Establish a Fiscal Year 2004-2005 budget for the District in the amount of \$519,900 (Attachment B).

Related Policies, References:

On May 28, 2002 the Mayor and City Council adopted Resolution No. 6083 ordering the provision of enhanced municipal services within the Downtown Enhanced Municipal Services District No. 2 and providing for the annual costs and expenses to be assessed against the real property within the District for each of the next five years.

On July 2, 2002 the Mayor and City Council adopted Resolution No. 6112A adopting a budget for the Downtown Enhanced Municipal Services District for 2002-2003, awarding contracts to Cramer-Krasselt for marketing and promotion services at a cost of \$500,000. Additionally, the City Council allocated \$97,000 to the Downtown Scottsdale Partnership for district administration.

In June 2003, the City Council was asked to consider a budget for downtown marketing and promotion that included \$500,000 for Cramer-Krasselt and \$97,000 for the Downtown Scottsdale Partnership (DSP). The City Council approved first six months of the DSP contract, with direction to staff to consider alternatives for downtown marketing management including the establishment of a Commission.

In October of 2003, the City Council considered the options of restructuring the DSP model or appointing a commission. The City Council voted to direct staff to draft and ordinance that would form the EMSD Commission.

Action Taken _____

In November of 2003 the City Council adopted ordinance 3532 establishing a seven member EMSD Commission.

In January, 2004 the City Council appointed the seven member EMSD.

The annual process to update the Downtown Enhanced Municipal Services District includes City Council authorization of assessment funds for district projects and a related expenditure budget. The final, council-approved, assessment amount is subject to minor adjustments based on public hearing objections that may be received up to the start of the public hearing June 22, 2004. In any event, district expenses will not be greater than the district budget approved by City Council.

BACKGROUND

The EMSD is funded by property owner assessments within district boundaries as depicted on the Assessment District Map (Attachment C). A budget of \$519,900 is projected for downtown enhanced services in 2004-2005.

The City Council appointed the EMSD Commission in October 2003 as an advisory body to work with property owners, merchants, businesses and retail and gallery associations and the Scottsdale Convention and Visitor's Bureau to help revitalize commercial activity and tourism in the district. The City Council, through this action, directed staff to work with the commission and the advertising agency to accomplish the goal of a revitalized downtown. Since January, when the Commission first met, significant efforts to engage all downtown stakeholders including Scottsdale Partnership marketing committee members, has produced positive results.

ANALYSIS & ASSESSMENT

Key Considerations:

Annually City Council considers property owner objections to the district assessment, levies the assessments, reviews district services and approves the district budget. As required by state law, a notice of the assessment objection period May 28-June 17, 2004 and public hearing June 22, 2004 were published in the Scottsdale Tribune newspaper for five (5) consecutive days May 24-May 28, 2004 (Attachment D). Assessment notices, with a summary of the specific assessments, and notice of the objection hearing date and process were mailed to all property owners in the District (Attachment E). These notices were sent before May 28, 2004 by Willdan.

June 22, 2004 City Council will act upon any objections received prior to the hearing. Council's decision will be final as related to the objections.

City Council established the EMSD to enhance marketing, advertising and promotion for businesses in downtown Scottsdale. The District provides enhanced marketing opportunities to the downtown area to remain competitive with other retail, business and cultural centers in the Valley.

City Council may increase assessment rates by as much as 2 ½ percent each year to offset increased advertising and related marketing costs. The notice of assessment mailed to property owners explaining assessment costs for 2004-2005 does not include a change in the assessment rates from 2003-2004. Unless property use or the size (square footage) of a building has changed an owner's assessment will remain the same for FY 2004-2005.

The annual district assessment update process requires property owner objections concerning the legality of the assessments to be heard and passed upon by the City Council. At the same time Council will consider the amount of funding expected from district assessments, establish the district budget and approve expenditure of district funds for marketing and administration services. There are limitations to an objection a property owner may submit - State Statute allows property owners to file an objection questioning whether a particular property is included in the district, whether the property classification is right (i.e., office vs. retail use) and the annual amount of the assessment. Property owners may not, however, object to the boundaries of the district, its purposes, services or budget.

Significant issues to be addressed:

Property owner objections and district budget: City Council is required to hear any property owner objections and determine what action is required. If Council determines the objections are insufficient or without merit and elects to proceed at this time, it will do so by adopting Resolution No. 6506 which will deny the objections and allow Council to continue the district assessments and approve a budget for the enhanced marketing services in the district.

Downtown marketing consultant: City Council has, for the last two years, approved a contract with a marketing firm (Cramer-Krasselt) to provide marketing, advertising and promotion strategies and services to the downtown enhanced services district. On July 7, 2004 the City Council will be asked to consider a contract for a new marketing firm to work with the Commission, and downtown associations and representatives, to accomplish downtown marketing plans.

Appointive boards and commissions: There has been some interest expressed since the EMSD was created that property owners who do not reside in Scottsdale may wish to have more direct involvement in downtown marketing, strategy and assessment allocation decisions. Accordingly, in order for non-resident district property owners to participate as an appointive member of the EMSD Commission an amendment to the City Charter would be required. Currently, "All members of appointive boards or commissions shall at the time of their appointment be a resident of the city, and shall maintain this residency for the duration of their term in office." (City of Scottsdale Charter, Article 5, Sec. 1.)

Community involvement:

Marketing, advertising and promoting downtown Scottsdale through the enhanced services district will continue to define the downtown area as the expressive center of the community, involving significant community uses including commercial, civic, arts and cultural, medical, residential and community events and activities.

The downtown area is a key destination for Scottsdale's visitors and has long been an important shopping and dining location for Scottsdale residents. The continued success of businesses in downtown is vital to the overall economic health of Scottsdale. Currently over \$600 million dollars of public and private projects are underway in the downtown.

RESOURCE IMPACTS

Available funding:

The downtown enhanced services district is funded by property assessments within the district boundaries, projected to be \$519,900 in FY 2004-2005. District assessments are collected by the Maricopa County Assessor semi-annually and

turned over to the City of Scottsdale to pay district expenses in accordance with a budget approved annually by City Council.

The FY 2004-2005 Downtown EMSD budget is projected to be \$519,900. This reflects the same level of assessment funding (\$500,000) for district marketing, advertising and promotion as this current year. District assessment update, legal and public notification expenses are expected to be \$19,900.

No district funds are used for downtown group staff administrative support or expenses. Budget for the Downtown Group comes from the city's General Fund.

Staffing, workload impact:

This request does not require new staffing resources or reassigning staff from other city priorities or programs.

**OPTIONS & STAFF
RECOMMENDATION**

Description of Option A:

Adopt Resolution No. 6506 rejecting any objections received to the legality of the district assessments, establishing \$519,900 as the amount of district funds raised through assessments, and authorizing a district budget of \$500,000 for marketing, advertising and promotion services and \$19,900 for related district update, legal and public notification expenses.

Description of Option B:

Decline to adopt Resolution No. 6506 which would result in no assessment being collected from downtown property owners and eliminating the source of funds for marketing and promoting downtown specialty retail districts and special events for FY 04-05.

Recommended Approach:

Option A to adopt Resolution No. 6506 rejecting property owner objections regarding the legality of the district assessments, establishing an assessments amount of \$519,900 for FY 2004-2005, and authorizing a budget of \$500,000 for marketing services and \$19,900 for district update, legal and notification expenses.

Proposed Next Steps:

Staff will initiate an approach for provision of services for the downtown enhanced services district as directed by City Council.

The EMSD Commission at its June 16th Meeting will consider an action recommending this budget be adopted by the City Council. Staff will present the outcome of their action at the June 22nd City Council meeting.

RESPONSIBLE DEPT(S)

Downtown Group


STAFF CONTACTS

John Little, Downtown Executive Director, 480-312-2539,

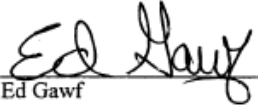
jlittle@scottsdaleaz.gov;

Sahler Hornbeck, Downtown Liaison, 480-312-2394, shornbeck@scottsdaleaz.gov

APPROVED BY


John Little
Downtown Executive Director
jlittle@scottsdaleaz.gov

6/10/04
Date


Ed Gawf
Deputy City Manager
egawf@scottsdaleaz.gov

6/10/04
Date

ATTACHMENTS

- A. Resolution No. 6506
- B. Estimate of Annual Costs and Expenses
- C. Assessment District Map
- D. Public Hearing Notice-*Scottsdale Tribune* publication
- E. Property Owner Assessment Notice & Cover Letter

RESOLUTION NO. 6506

RESOLUTION OF THE MAYOR AND COUNCIL OF THE CITY OF SCOTTSDALE, ARIZONA, DENYING OBJECTIONS RECEIVED TO THE LEGALITY OF ASSESSMENTS, APPROVING AN ANNUAL BUDGET IN THE AMOUNT OF \$517,203 FOR 2004-2005 AND APPROVING CERTAIN EXPENDITURES FOR DOWNTOWN ENHANCED MUNICIPAL SERVICES DISTRICT NO. 2.

WHEREAS, on May 28, 2002, the Mayor and Council of the City of Scottsdale, Arizona, adopted Resolution No. 6083 ordering the provision of enhanced municipal services in Downtown Enhanced Municipal Services District No. 2, and providing for the annual costs and expenses thereof to be assessed against the real property within the District for each of the next five years; and

WHEREAS, public notice of a hearing with respect to the assessments for 2004-2005 has been given to owners of real property in the District by mailing a copy of the Estimated Annual Assessment to the post office address of each such owner and property owners' objections to the legality of the assessments for 2004-2005 have been received; and

WHEREAS, the Mayor and Council have heard the property owners' objections to the legality of the 2004-2005 assessments in Downtown Enhanced Municipal Services District No. 2; and

WHEREAS, the City now desires to adopt a budget of \$517,203 for Fiscal Year 2004-2005, that provides for annual funding of enhanced municipal services in City of Scottsdale Downtown Enhanced Municipal Services District No. 2 and to levy the assessments in respect thereof;

NOW, THEREFORE, BE IT RESOLVED by the Mayor and Council of the City of Scottsdale, Arizona, as follows:

SECTION 1. DENIAL OF OBJECTIONS. That the objections filed with the City Clerk within the period allowed by law have been considered by the Mayor and Council and are hereby found and determined by the Mayor and Council to be insufficient and without merit.

SECTION 2. ASSESSMENT. That the Superintendent of Streets of the City is directed to estimate upon each of the lots in City of Scottsdale Downtown Enhanced Municipal Services District No. 2 the benefits arising or expected to arise from the enhanced municipal services to be provided, and shall thereupon make an assessment of each of the lots in the District in proportion to the benefits received by each in the aggregate of \$517,203 in accordance with the provisions of Sections 48-589 and 48-590 of the Arizona Revised Statutes and shall deliver such assessments to the City Treasurer for collection as provided by law.

SECTION 3. ADOPTION OF BUDGET. That the proposed budget for City of Scottsdale Downtown Enhanced Municipal Services District No. 2 for Fiscal Year 2004-2005 in the form presented to the Council is hereby adopted in the total amount of \$517,203.

SECTION 4. CERTIFICATION. The City Clerk shall certify to the passage and adoption of this resolution.

PASSED AND ADOPTED by the Council of the City of Scottsdale on this 22nd day of
June, 2004.

CITY OF SCOTTSDALE, an
Arizona municipal corporation


Mary Manross, Mayor

ATTEST:


Carolyn Jagger, City Clerk

APPROVED AS TO FORM:

SNELL & WILMER L.L.P.


William A. Hicks, III
Special Counsel

EXHIBIT F – BUDGET AND MARKETING PLANS



08/04/2004

EMSD FY 2005 Budget -- REVISED

Items Already Committed

Media placements

| | | |
|-----------------------------------|----|-------|
| Valley Guide-Phx. Area Map | \$ | 2,093 |
| Cities Finest Magazine | \$ | 4,266 |
| Guest Informant Az Quickguide | \$ | 7,000 |
| City View Video | \$ | 3,600 |
| SCVB Destination Guide | \$ | - |
| SCVB Meeting Planners Guide | \$ | - |
| Certified Folders Display Service | \$ | 4,258 |

Sub-Total: \$ 21,217

| | | |
|--|----|-----|
| IDesignIt-help w/developing video shots | \$ | 125 |
| IDesignIt-downtown ad revisions | \$ | 125 |
| Enterprise Media-video update production | \$ | 775 |

Sub-Total: \$ 1,025

Area Grants

| | | |
|---|----|-------|
| Fifth Ave. Merchants Assoc.-ice cream social | \$ | 3,500 |
| Scottsdale Gallery Assoc. (Main St. Dist.)-Summer Spectacular ArtWalk | \$ | 2,000 |
| Marshall Way Contemporary Arts District-entertainment | \$ | 3,425 |

Sub-Total: \$ 8,925

Sub-Total Committed Items: \$ 31,167 \$ 31,167

Proposed 2005 FY Budget Allocation

| | | |
|---|----|---------|
| Map & Directory redesign/printing (200K qty) | \$ | 56,000 |
| Agency Retainer/year | \$ | 90,000 |
| Marketing Plan Development | \$ | 15,000 |
| Creative Campaign Development | \$ | 25,000 |
| Advertising production | \$ | 25,000 |
| Media placements | \$ | 80,561 |
| Area grants | \$ | 150,075 |
| Website Update | \$ | 7,197 |
| (rebuild existing web site & update contents) | | |

Sub-Total: \$ 448,833 \$ 448,833

Contingency \$ 20,000

TOTAL FY 2005 BUDGET: \$ 500,000



**Enhanced Municipal Services District
Preliminary Marketing Plan Draft**

**Approved by EMSD Commission
August 12, 2004**

Situation Analysis

The Enhanced Municipal Services District (EMSD) Commission was established in November of 2003 by the Scottsdale City Council to recommend a marketing budget that uses funds generated by a special assessment that was established to provide a higher level of marketing for downtown's specialty districts. This marketing plan provides a focus and strategies for implementing this enhanced level of marketing.

The challenges inherent in this project are many, but so too are the opportunities. This is an especially pivotal time in the history of Downtown Scottsdale. The high profile Arizona Canal (Scottsdale Waterfront) project is poised to capture national and international media exposure. Scottsdale Fashion Square is a constant source of competition for resident and visitor attention. While this creates competition for Downtown Scottsdale, it can also add to the synergy of a true destination. Just as these two entities will be marketing themselves, so must Downtown Scottsdale market its own unique experience, which combines a sense of old town charm and upscale sophistication. But keep in mind that consumer attitudes and preferences are continually shifting, and retailers and destinations must keep up with their actions. The national trend for outdoor, walkable shopping districts continues to grow, and lifestyle centers like Kierland Commons are being replicated throughout the Valley.

Seamless and effective communication between the marketing working group, merchants associations, EMSD Commission, city staff and marketing consultant will be critically important in order for Scottsdale's vision for downtown to be realized. Care should be given to respect that, at its core, this is a marketing effort that has a very real impact on the livelihoods of many small business owners who all have a stake in its success. Achieving consensus with such a large and passionate constituency is critical. Downtown Scottsdale stakeholders need to feel ownership in the marketing approach, without accepting a middle-of-the road solution. This presents an intriguing and exciting challenge!

Purpose

The purpose of this marketing plan is to implement strategies that add to Scottsdale's appeal as both a destination for shopping and entertainment, and a great place to do business. Emphasis will be placed on increasing foot traffic and subsequently, sales, in downtown. The plan will

also continue use of the "The Original" logo and tagline to represent the entire district, but without the ancillary composite figures. Individual districts will be encouraged to undertake efforts that celebrate their uniqueness, but will also be encouraged to partner whenever appropriate.

FY 2005 Marketing Plan Objectives

- Increase sales by a total of 12-15% over the next three years (approximately 5% per year)
- Garner five million media impressions during FY 2005

Marketing Plan Strategy

The strategy to increase retail consumption and build awareness of EMSD during the coming fiscal year will include public relations, special events promotion and a multi-media advertising campaign targeting Valley residents and visitors.

Target Audience

Primary Target Audience - Valley Residents

- Adults, average age 48, skewed female
- Married
- \$90,000+ HHI
- Resides within a 30-mile radius of Downtown Scottsdale

Secondary Target Audience: Scottsdale/Phoenix Visitors

Scottsdale visitor profile from Office of Economic Development, August 2003

- Average age 52.5 years old
- \$77,000 HHI
- Most likely from Midwest and West regions of the US
- Date of visits: January – March '03 (41%), April – June '03 (29%)
- Visitors to Valley hotels and resorts (both convention attendees as well as leisure travelers). Also included are visitors staying with family within the 30-mile radius
- Many of the businesses travelers to Scottsdale resorts also use the trip to Scottsdale as a family vacation.

Problems/Opportunities

Downtown Scottsdale has a unique marketing advantage over other cities in the metro Phoenix area. It already is a well known destination inside Arizona as well as outside the state. Ongoing events in Downtown Scottsdale have been embraced by the public. It has galleries with distinctive reputations of being premier establishments in the United States. There are a number of high profile events that have called Scottsdale home for many years that feed the business in the region. Downtown Scottsdale has truly taken the leadership role at positioning itself as a "must see" city.

One of the key objectives for the EMSD is to stimulate interest and visitation by the resident market. With the growing competitive set and the growth of the Valley, residents have numerous shopping, dining, and leisure time options. Downtown Scottsdale should be marketed in a manner which demonstrates that the area offers what residents want, but with a personality which positively differentiates the area from the competitive set. Downtown Scottsdale provides an alternative to the typical retail mix residents find at other shopping venues. As a destination, Downtown Scottsdale provides an original array of art, dining and jewelry and a variety of unique shops, complemented by a warm, welcoming, comfortable experience reflective of the spirit of Scottsdale.

Downtown Scottsdale should be positioned to retain its “West’s Most Western Town” status while embracing the contemporary lifestyle and attitude that attracts a diverse patronage. Branding Downtown Scottsdale as a destination, while also creating opportunities for each district to maintain its own unique appeal, will cultivate a cohesive spirit among its diverse stakeholders. The approach outlined in this proposal will help Downtown Scottsdale maintain its rightful place as a unique destination for visitors and residents alike.

With all the strengths identified, there are also challenges. There appears to be a widespread misperception that Downtown Scottsdale is an area “just for tourists.” Informal surveys conducted by the Scottsdale Convention and Visitors Bureau have shown that many outside of the Valley perceive the entire area as “Old Town” and don’t perceive the distinctiveness of the individual districts. And, although there are a number of prominent events in and around Downtown Scottsdale, high traffic on the streets doesn’t seem to equate to high traffic in the stores. Finally, with the popularity of area lifestyle centers, Downtown Scottsdale faces geographic challenges that make it seem less than walkable.

These strengths and weaknesses must be taken into account when developing the marketing, advertising and communications components of the plan.

Communications Plan Objectives

- Communicate the compelling reasons why one should consider Downtown Scottsdale by utilizing all consumer touch points (advertising, public relations, merchant relations, special events, signage, etc.).
- Strengthen the position of Downtown Scottsdale in FY 2005 in order to provide the marketing platform to increase brand preference in the upcoming years.

Communications Plan Strategies

- Strategically build awareness and stimulate interest around special events to drive retail traffic to Downtown Scottsdale.
- Use EMSD marketing funds to build umbrella awareness of Downtown Scottsdale.

- Designate area grant funds to help drive events and supplement the overall EMSD Downtown Scottsdale umbrella efforts.
- Implement yearlong publicity, public involvement, media relations and public outreach initiatives that enhance the area's image and promote individual events.
- Forge a partnership with the Scottsdale Convention and Visitors Bureau to leverage its existing marketing and communications efforts and to provide support in driving visitors to Downtown Scottsdale.
- Use targeted media placements to promote both brand image and events.
- Update existing creative advertising executions while maintaining "The Original" platform.
- Continue to produce and distribute targeted collateral materials.

Communications Plan Tactics

Events

- **Significant City Events.**
 - Parada del Sol activities - parade, Trails End celebration in Old Town, rodeo the following weekend.
- **Significant Valley Events.** Additional marketing/advertising beyond downtown information distribution by Scottsdale Convention & Visitors Bureau and Downtown Ambassadors.
 - Fiesta Bowl game related activities and events
 - NASCAR stock car races at Phoenix International Raceway in November and April
 - Spring Training with a focus on the San Francisco Giants at Scottsdale Stadium and the Chicago Cubs at Hohokam Stadium
 - FBR Open - golf tournament at the city's TPC course
 - Rock 'n Roll Marathon - especially if the route comes into Downtown Scottsdale
- **Scottsdale Signature Events.** Consider additional marketing/advertising for four or five of the events that could draw visitors downtown, i.e., Barrett Jackson Auto Auction, Arabian Horse Show.
- **Conventions** – work with Scottsdale Convention & Visitors Bureau
- **Scottsdale Convention & Visitors Bureau Event Booths** – Staff booths with downtown Scottsdale volunteers when possible and provide collateral materials for distribution.

Public Relations Initiatives

Downtown Scottsdale events and happenings will be supported through public relations initiatives, regardless if it was funded through EMSD monies or area grants. Major strategies include public involvement, public outreach and media relations. Initial ideas are explored below.

Public Involvement

Bring together merchants, the marketing group and EMSD commission members to productively discuss downtown opportunities. Obtain support and buy-in for marketing efforts.

- Downtown Chats: Coffee with John
 - Beginning in September, invite merchants and property owners to a regularly scheduled morning session with John Little. Although anything is fair game, publicize specific topics for each session in effort to make them more productive. Some ideas include:
 - Downtown transportation (trolley)
 - Construction projects
 - Public safety
 - Event management, road closures, etc.
- Newsletter and Downtown Updates
 - Work with Downtown Group to disseminate information regarding issues covered during the Downtown Chats.
- What's New with You?
 - Host fun, interactive quarterly meetings with downtown merchants for the sole purpose of finding out what's new with their businesses and industries. Utilize this information in media relations efforts

Media Relations

Promote the specialty districts and downtown as a region by continuously sharing news and human interest stories with targeted media.

- Event Publicity
 - Support existing Downtown Scottsdale events through earned media coverage (i.e. a "how to" guide to the Art Walk).
 - Leverage major Valley-wide events with related news from Downtown. Here are some ideas to get started, but media hooks would be generated by the Marketing Group:
 - Fiesta Bowl
 - Pitch stories about quirky things that can be found downtown, things that represent the hometown team, as well as things that are

uniquely Scottsdale and would be novel to someone from the visiting teams.

- Rock 'n Roll Marathon
 - Downtown team trains for marathon
 - Downtown care package to runners
 - FBR Open
 - Golf equipment retailers
 - Downtown alternative to the Birds Nest
 - Barrett Jackson Auto Auction
 - Classic car tour up Scottsdale Road
 - Arabian Horse Show
 - Where to find fine show apparel downtown
 - Spring Training
 - A month's worth of "fun in the sun" in Downtown Scottsdale, to supplement fans' experience while in town to cheer on their team.
 - NASCAR (both events)
 - Life in Scottsdale's fast lane.
- Leverage Scottsdale signature events with related news from Downtown
 - Parada del Sol
 - The Downtown Group
 - City of Scottsdale is recommitting itself to downtown
 - Reallocation of resources
 - Downtown Group offices and personnel
- Merchant Stories

Work with merchants and business owners downtown to find the best stories to promote the area. These stories will be a focus of the quarterly "What's New With You?" meetings hosted by Olson Communications and the Marketing Group.
- Research and develop stories on unique merchants throughout Downtown
 - Finding the gems in Downtown Scottsdale (those little known merchants whose presence makes Downtown special)
 - Noteworthy business owner profiles in business publications

- Downtown Image
 - Develop and host a media FAM trip in each district for local writers.
 - Pitch an ongoing historic photo retrospective of downtown then and now.
 - Revitalization of downtown continues.
 - Taking care of business Downtown (where to get a haircut, nails done, shoes fixed, etc.).
 - Meet with Arizona Republic/Scottsdale Republic editorial boards to share/discuss downtown image.
 - Develop relationships and explore opportunities with local alternative lifestyle publications.
 - Pitch individual feature stories that highlight the originality of each district:
 - Main Street
 - Marshall Way
 - Old Town
 - 5th Avenue
 - Business District

Public Outreach

Consistently provide information to third parties to extend the reach of the public relations effort. Develop a communications strategy and outreach program to reach these key audiences:

- Scottsdale Ambassadors
 - Quarterly meeting to update them on news and happenings Downtown
 - Develop ways to create better awareness for the Ambassadors
 - Uniforms
 - Kiosks
 - Gathering place (Downtown Group offices?)
- Hotel and resort concierge program
 - Concierge association newsletter
 - Consistent and accurate information on downtown events (info flows through OCI to concierges)
- Trolley drivers
 - Invite to attend Ambassador briefing meetings
 - Consistent and accurate information on downtown events
- Destination managers
 - Communicate consistently in a manner that effectively conveys news and happenings from downtown
- Scottsdale Convention and Visitors Bureau members
 - Target member communications with news of downtown Scottsdale

- Downtown Scottsdale Service Providers
 - Develop relationships with downtown service providers (i.e. salons, shoe repair, travel agents, accountants, etc.) to provide them with downtown information and event updates.
 - Develop on-hold scripts for downtown businesses to use on their phone systems.
 - Create “Discover Downtown” albums for businesses to use in customer waiting areas.

Media Publications (See attached media chart)

The media plan will focus on supporting significant events and the targeted tourism publications that are available in FY 2005. The EMSD advertising fund will fund the broader picture media placements while area grant funds can help support the EMSD allocations on an even more localized level.

Many additional media avenues such as airline in-flight magazines and alternative lifestyle publications were researched. However, under the current budget allocation, they are unable to be funded during 2004-05, but if roll-over funds from last year become available, these opportunities may be readdressed.

Any roll-over or contingency funds may be programmed by the EMSD Commission as they deem appropriate.

Area Grants

Use area grant funds to support individual events throughout the year in conjunction with overall advertising media placements promoting major events. The grants should fund many of the operational and promotional needs of events in Downtown Scottsdale. The area grants also should capitalize on the EMSD funds that are going to promote many of the significant events within the Downtown Scottsdale area. By extending the reach of the EMSD funding on many of the events, Downtown Scottsdale can deliver a stronger consumer impact.

Creative Executions

Collateral

For FY 2005, the two primary collateral pieces that should continue to be updated and utilized are the Downtown Map & Directory and the Ambassador tear sheet map.

- Downtown Map & Directory

- Update existing Downtown Map & Directory with copy revisions and slight design revisions and print 200,000 quantity.
- Continue to use Ambassador tear sheet map (printed and available) through spring 2005
 - Possibly revise to convey merchant information while maintaining cost effectiveness of the marketing piece
- Work to consolidate map information for consistency through all collateral and advertising avenues as appropriate

Advertising

For FY 2005, the advertising platform “The Original” will be maintained. However, the creative execution, particularly the graphics, will be revised to better reflect the brand image we want to convey for Downtown Scottsdale. Depending on the final approved media placements, we will explore developing different ad executions, but with a family look and appeal to be used as needed for various publications.

Potential conceptual executions:

- Event style ad
- Retail shopping ad
- Galleries ad
- Dining ad

We will develop color and black & white ad formats for use in multiple publications that can be sized to fit individual publication needs.

There was an immediate need for *Program for the Arts*. The existing Downtown Scottsdale ad will be used due to time constraints for preparing materials. The *Gammage Auditorium – Lion King* program ad will be reviewed for creative execution prior to sending materials.

Web site

Issues with the current Web site will be addressed and updated information will be posted regularly.



Enhanced Municipal Services District (EMSD)
Mid-Year Marketing Recap • July 2004 – January 2005
Presented by Olson Communications, Inc.

The EMSD Commission supervises the marketing effort for Downtown Scottsdale, overseeing a large group of merchant volunteers and our marketing consultant, Olson Communications (OCI). The marketing group has worked tirelessly with OCI to create a comprehensive marketing and public relations program, including advertising, event coordination and media outreach for the EMSD and its five specialty districts.



Of the \$500,000 marketing budget allocated to the EMSD by the City of Scottsdale, \$150,000 has been divided equally among the five merchants associations: Main Street, Fifth Avenue Merchants Association, Old Town, Brown & Stetson and Marshall Way Contemporary Arts District. The remaining budget is used to support marketing activities for Downtown Scottsdale as a whole.

Here's a glimpse of activities to date since July 2004. You can view a color version of this marketing recap at scottsdaledowntown.com.

SCOTTSDALE DOWNTOWN The Original

Marketing Collateral

- Downtown Scottsdale Map and Directory -- Produced an updated version of this key marketing piece including a new, easy-to-read map and a comprehensive up-to-date address and phone list for all businesses within the EMSD
- Downtown Scottsdale Map Kiosks -- Produced an updated 10 kiosks map displays for existing Downtown Scottsdale kiosk locations
- Downtown Scottsdale Website - Updated graphics, merchant listings, web site copy and Downtown Scottsdale map. The website is also utilized for promotional ticket give-aways. Website hits have quadrupled to 10,000 a month since the implementation of the marketing communications plan.
- Downtown Scottsdale Ambassadors Map -- Produced 12,500 Ambassadors Maps with the updated Downtown Scottsdale map
- P.F. Chang's Rock 'n' Roll Marathon Insert - Produced 50,000 P.F. Chang's Rock 'n' Roll Marathon Goodie Bag inserts displaying the updated Downtown Scottsdale map and listing of restaurants



SCOTTSDALE DOWNTOWN *The Original*

Advertising

- Produced a new ad campaign for Downtown Scottsdale and negotiated ad placements for the following tourist publications:
 - Valley Guide Map (bi-annual), 70,000 circulation
 - Cities Finest Magazine (annual), 15,000 circulation
 - Guest Informant Quick Guide (Nov. 2004 – Jan. 2005 & Feb. – April 2005), 19,000 circulation
 - Phoenix Magazine Downtown Scottsdale Special Section (January 2005), 63,152 circulation
- Negotiated ad placements for the following programs and spectator guides for popular tourist events:
 - P.F. Chang's Rock 'n' Roll Arizona Marathon and 1/2 Marathon, 35,000 distribution
 - Fiesta Bowl Program, 75,000 distribution
 - Fiesta Bowl Entertainment Guide, 50,000 distribution
 - Insight Bowl, 50,000 distribution
 - Barrett Jackson Auto Auction, 14,500 distribution
 - Program for the Arts and Lion King, 168,000 distribution
 - Chicago Cubs Spring Training, 25,000 distribution
 - San Francisco Giants Spring Training, 12,000 distribution
 - PIR NASCAR Checker 500 (Nov. 2004), 25,000 distribution
 - PIR NASCAR Busch 500 (April 2005), 25,000 distribution



SCOTTSDALE DOWNTOWN *The Original*

Media Relations

Relationships have been established with key reporters, including Dolores Tropiano, Roberta Burnett, John Yantis and Peter Corbett. These have resulted in increased features, as well as mentions and references to Downtown Scottsdale in related articles.

Secured Downtown Scottsdale news coverage in the following media outlets:

- KTVK 3 TV Good Morning Arizona Weekend show – Saturday, October, 23 – In-studio ArtFest of 5th Avenue segment
- KTVK 3 TV Good Morning Arizona Weekday – Monday, November 15 – free horse drawn trolley segment on location in Downtown Scottsdale
- KPNX NBC 12 Morning Show Weekend – Sunday, November 14 – In-studio ArtFest of Scottsdale segment
- Scottsdale Republic – December Northeast Valley Events – includes all of the Downtown Scottsdale events and attractions
- Tribune – throughout November and December – mentions of free horse drawn trolley
- KTVK 3 TV Good Morning Arizona Weekend show – Saturday, December 11 – music segment with Arizona's Singing Cowboy (one of the many attractions of Downtown Scottsdale) - at studio
- FOX 10 Arizona Morning – Wednesday, December 15 – holiday events and attractions of Downtown Scottsdale segments (on location on 5th Avenue)
- AZ Parenting – December – free horse-drawn trolley
- Arizona Republic and Tribune – throughout December – mentions of farmers markets and ArtWalk
- Desert Living Magazine – January/February – coverage of new artspace in Downtown Scottsdale
- Downtown Scottsdale events in Scottsdale Republic January calendar
- KTVK 3 TV Good Morning Arizona Weekend show – Saturday, January 1, 2005 – metaphysical shops in Downtown Scottsdale offer great New Year's products
- KTVK 3 TV Good Day Arizona weekday – Wednesday, January 5, 2005 – P.F. Chang's Rock 'n' Roll Arizona Marathon ArtWalk musical performance segment
- KTVK 3 TV Good Day Arizona weekday – Thursday, January 6, 2005 – P.F. Chang's Rock 'n' Roll Arizona Marathon ArtWalk artist segment
- KTVK 3 TV Good Evening Arizona live, location segment – Thursday, January 6, 2005 – coverage of the P.F. Chang's Rock 'n' Roll Arizona Marathon ArtWalk

SCOTTSDALE DOWNTOWN *The Original*

- KTVK 3 TV Good Evening Arizona live, location segment – Thursday, January 6, 2005 – coverage of the free horse drawn trolleys
- KTVK 3 TV Good Day Arizona weekday – Friday, January 7, 2005 –cooking demo with Bravo! Bistro – to prepare “Runner’s Special”
- KTVK 3 TV Good Morning Arizona weekday – craft segment to kick-off Sunday A’Fair’s 16th season

Events Marketing

- Negotiated P.F. Chang’s Rock ‘n’ Roll Arizona Marathon sponsorship opportunity; supported the sponsorship through advertising, route signage, runner communications, media stories and broadcast news segments; representation at Runner’s Expo attracting more than 30,000 runners and on the event Web site which will stay active for the next year

Outreach

- Developed and began a new concierge outreach program, working with a Downtown Scottsdale representative to visit local hotels and Scottsdale Fashion Square on a monthly basis
- Developed monthly events and attractions bulletin delivered to concierges on a monthly basis
- Maintain consistent contact with Scottsdale CVB on marketing, public relations and advertising opportunities regarding downtown Scottsdale, including an article developed for the CVB Meeting Planner’s Guide
- Represent marketing efforts during monthly EMSD Commission meetings
- Coordinate with Scottsdale CVB on Downtown Scottsdale communication efforts
- Secured Phoenix CVB partnership
- Monthly, attend regularly scheduled district association meetings